U.S.-JAPANESE AGRICULTURAL TRADE RELATIONS

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U.S.-JAPANESE AGRICULTURAL TRADE RELATIONS

FRIDAY, FEBRUARY 12, 1982

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Sacramento, Calif.

The subcommittee met, pursuant to notice, at 9 a.m., in the California Department of Food and Agriculture Auditorium, Hon. S. I. Hayakawa, presiding.

Present: Senator Hayakawa.

STATEMENT OF HON. S. I. HAYAKAWA, A U.S. SENATOR FROM CALIFORNIA

Senator HAYAKAWA. The meeting will please come to order.

I would like to start by welcoming all of you to the hearing of the Senate Committee on Agriculture, Nutrition, and Forestry on the subject of trade issues with Japan. The issues surrounding our trading relationship with the Japanese are numerous and wide ranging. As evidenced to the breadth of agricultural concern, one merely needs to survey the interests of the people in our audience and run down the witness list for today's hearing which, I must say, reads like a "Who's Who" of California agriculture.

The reason I am holding this hearing today is simple. The Senate Agriculture Committee, the U.S. Department of Agriculture, the Department of State, the Office of the Trade Representative, and the Department of Commerce, all need to have a greater understanding of your view from the frontlines, from the trenches of trade. Your opinions and perceptions are most important to the decisionmakers in Washington. Your working knowledge and understanding of the mechanics of our trading relationship are unique, and I must say, invaluable because they're based upon firsthand experience.

I am deeply concerned with our worsening economic relationship with the Japanese. We are watching our trade relationship erupt from a simple trade rivalry to something approaching a trade war as the U.S. trade deficit with Japan zooms upward to $18 billion a year, and there is talk that, within another year or so, that trade deficit will become $20 billion a year.

From our point of view, this is outrageous and totally unacceptable.

We are anxious to gather the opinions of those assembled here about the nature and extent of the trade barriers, whether formal, informal, or institutional in nature, which hamper the expansion of American agricultural exports to Japan. We also look forward to hearing some of the success stories you have to tell after years of cultivating the Japanese marketplace.

The story isn't entirely all bad, after all. Japan remains the largest market for American agricultural exports in 1982 as in 1981. But nevertheless, our trading relationship with Japan cries out for attention. The Congress, the administration and the business sector must join forces to challenge the Japanese attitudes and policies regarding imports. It is in our interest; it is in Japan's interest; it is in our mutual interest to see a lower trade deficit between our two nations.

If the situation is not brought under control, I fear a great wave of protectionist sentiment and protectionist action which could sweep the Congress into the particularly destructive posture of erecting our own barriers to trade with Japan.

I, myself, believe very much in free trade. My father was an importer and exporter. He was a believer in free trade. When I was an undergraduate, I was a student of Adam Smith and he was a believer in free trade. So free trade runs deeply as an undercurrent of my thought, and the idea of raising trade barriers is one that I do not like, but nevertheless confronted with increasing trade deficits with any one country, the thought inevitably has to occur to me as to many other citizens.

Since I came to the Senate in 1977, I have been vitally concerned with the relationship between the United States and Japan. From my position on the Agriculture Committee, I have been talking about the danger of Japanese protectionist policies for years. In fact, I went to Japan early in 1978 to express my concern directly to a representative of the Japanese Government. I made quite a stir in the press when I returned with the comment that:

> Japan should grow up and act like an adult nation. Japan is not Bangladesh; Japan is not Lesotho. It's a great, powerful, industrial nation. It belongs in the big leagues of nations of the world.

Now, when I was saying that Japan should act grown up, I was pointing, of course, to Japan's intensely protectionist attitude toward the importation of agricultural products. What I was saying then is echoed in other words by a letter from John Holdridge, Assistant Secretary for East Asian and Pacific Affairs, after a recent visit to Japan. The letter is dated February 5, 1982. It states:

> There are many proposals to restrict Japanese imports, but adoption of these measures would be policy. However, we must recognize the frustration that exists over the difficulties U.S. firms face in penetrating the Japanese market.
>
> Policies to protect Japanese industries adopted after World War II while industry was being rebuilt, meshed with deeply engrained Japanese traditions.
>
> Today, as a result of the open international trading system, Japan is a mature economic power with the obligation which accompany that status.

Secretary Holdridge says it in a more dignified way than I did when saying that Japan should be behaving like a grownup power.

Secretary Holdridge states:

> This means reciprocity by letting others, where competitive, gain market share in Japan. I am pleased that under the leadership of Prime Minister Zuzuki, possible barriers to market entry are being examined and solutions are being proposed. We welcome the decision to advance Japan's duty reductions negotiated in the MTN by two years.

Well, as a member of the Agriculture Committee, I wanted to know why they did not buy more farm products from us, especially since their food prices are so high and their millions of consumers would benefit from lower prices. Of course, the protectionist policies, especially as regards food, is understandable. In the years immediately following World War II, there was literal starvation in Japan. There was a real shortage of food and people still recall that very, very vividly. The idea of economic self-sufficiency, but especially of food self-sufficiency, is a goal that the Japanese still aspire to, although under conditions of peace and of international trade they don't need to. But nevertheless, we ourselves, we as Americans, awaken those fears when a few years ago we stopped the export of soybeans to Japan. That was a great mistake on our part. But as I say, it reawakened all those fears of a food shortage in Japan. Again, the Japanese were reconfirmed in their determination to be self-sufficient in food wherever possible.

During my tenure on the Foreign Relations Committee, I had been a constant critic of the Japanese policy of limiting their spending on defense to a minute level while relying on the American defense umbrella for security.

This is dangerous behavior, dangerous in that a growing body of voices in our Nation are calling for increased commitment on the part of the Japanese. My fear is that this call for action will soon turn to name calling, and we will witness a further decline in our relationship with our most valid ally in the Pacific. This has been turned around somewhat, that is, to go back to Secretary Holdridge's letter. He says, "The Japanese defense budget for fiscal year 1982 of $11.8 billion represents an increase of 7.54 percent (4.6 percent in real terms according to GOJ calculations). It is particularly significant at a time when the increase of the general expenditure account has been held to an average of 1.8 percent."

But nevertheless, even with this increase, the expenditure that Japan makes for defense purposes is, I believe, still less than 1 percent of their gross national product which is very, very small compared to that of other nations in the world.

However, let's get on with the business of the day. As you are all aware, there has been quite a bit of news recently regarding Japanese trade concessions. Late last month the Government of Japan announced that they will be taking action on 67 of 99 items which foreign governments had complained about as being nontariff trade barriers. Thirty-six of the original ninty-nine items are agriculture related, but they failed to address import quotas and plant test restrictions affecting California agriculture. I am sure that specifics relating to these actions will surface later today.

One thing that is apparent is that the Japanese are beginning to get the message. But we must continue to raise our concerns and hammer home our discontent.

The timing of our hearing is most fortunate. We have the opportunity here to send a clear statement of concern with the expression of specific barriers and constraints affecting our international trade. Let us capitalize on the recent public awareness regarding our problems with Japan and make our case for free trade.

May I say that there are several representatives of the Japanese press here and let me take this occasion to welcome them here to report our deliberations to their press in Japan. You are most welcome, gentlemen.

While I recognize that the Japanese restrictions on agricultural imports as a result of the Medfly have been a significant problem, I would simply request that we not allow this current issue to consume too much of our valuable hearing time. The recent talks in Tokyo between our Department of Agriculture and the Japanese Ministry of Agriculture, Forestry, and Fisheries produced a letter of agreement. The agreement fails to satisfy the issue in its entirety, but we are moving; we are going ahead. Let's all pray for final resolution of this nasty situation.

I hope today that we can pull back from the Medfly crisis and look at the bigger picture.

Before we begin with our witness list, I would like to set the scene as far as I understand the Japanese basis for developing the protectionist policies which we will be discussing today. Additionally, I will attempt to provide a basic outline of the trade barriers we face and hand the responsibility for details over to our witnesses.

Japan's agriculture perhaps best exemplifies the traditional Japanese view of their country as a "small island nation poor in natural resources."

Looking at Japan from the outside, it's a great, big, powerful industrial nation, but looking at it from the inside you're a small, rocky island with very few natural resources, no oil, very little coal, and very little arable land.

Food shortages and hunger immediately following World War II are clearly remembered by Japan's older population. Concern about its limited agricultural resources and its dependence on other countries for basic food commodities has influenced the shape of Japan's postwar protectionist policies. It is clear that Japan's agricultural sector is highly inefficient.

While yields are quite high, agricultural labor productivity is among the lowest of the developed countries. The average farm size in Japan is 2½ acres. Looking at that 2½ acres from the perspective of Sacramento, Calif., its perfectly ridiculous. Nevertheless, that is the average farm size in Japan.

Historically, Japan's agricultural policy has had three major objectives: First, to maximize self-sufficiency; second, to maintain farm incomes at a level equal to urban incomes; and third, to develop secure sources of food supplies. The Japanese Ministry of Agriculture, Forestry, and Fisheries hopes to maintain the current level of self-sufficiency through continuation of a strong program to support domestic production, a slowdown in heretofore rapid changes in the diet of the Japanese because the change in diet means more imports of foods that they don't produce themselves and maintenance of protective trade policies. However, rising population and incomes, the declining trend of self-sufficiency, limitations on the fish catch brought on by the 200-mile economic zones, the high cost of protection, westernization of the Japanese diet and the trend toward gradual implementation of import liberalization measures all work to undercut the goal of rising self-sufficiency.

As you may all know, it's the custom of Japanese couples to travel abroad for their honeymoon. They may go to Hawaii; they may go to the South Seas Islands; they may come to Los Angeles or San Francisco. But wherever they go, they experience foods that they don't get in Japan. Then when they get back to Japan, they want to try them. Every such experience, and it is experienced by hundreds of thousands of couples every year, enlarges their appetite for things they are not accustomed to eating at home and these create the demand for food imports.

It is amazing to note that Japanese producer prices bear almost no relationship to world market prices, and in many instances are several times higher. For example, rice is supported at three times the world price level and is protected from imports by a strict import quota and state trading.

I have to tell you this story that happened with Agriculture Minister Nakagawa. He and I were having a dinner one night and having a very good time over drinks. I said to him, "Why do you have this absurd system in Japan of inefficient rice production?" I told him, "We can give you all the rice the Japanese can eat. We can sell to you from California for one-third of the price you now pay for it."

He took another drink and started laughing and he said, "No, one-sixth." [Laughter.]

What happens is the grower of the rice is subsidized heavily to grow the rice and then when it's sent to market it's too expensive for people to buy so the consumer is subsidized. So the government takes a bath at both ends of the transaction. That is what I was talking about. Nakagawa understood this perfectly well. But this is how far they have gone in the interest of food self-sufficiency, especially as regards rice which is central to their diet.

It is amazing to note that Japan's insecurity about domestic food has, therefore, an historical context and we need only recognize that Japan relies on imports for 30 percent of her food consumption on a value-added basis and over 50 percent on an original calorie basis. Because of her lack of natural resources and abundance of labor, Japan operates an import policy designed to promote imports of raw materials and hinder purchases of value-added goods.

Despite the barriers to its market, Japan is a leading agricultural importer, with imports valued at $17 billion in 1980. Of this amount, the United States supplied about $7 billion worth, by far Japan's largest supplier with a 40-percent import share. In terms of value, approximately 86 percent of U.S. exports to Japan are raw materials, and 71 percent of the total consists of four major items: Feed grains, wheat, soybeans, and cotton. Some of the others include hides, tallow, soybean meal, and forage crops. The balance of 14 percent includes processed, semiprocessed, or consumer-ready goods.

In this category fall many of the items we will be discussing today such as fresh and processed fruits and vegetables, meats, nuts, and citrus products. Our objective is to increase the volume and mix of commodities exported to Japan from this latter category.

Indeed, Japan has taken steps in the past two decades to realize its market, but our agricultural sector is still subject to an array of quotas, tariff restrictions, duties, plant pest regulations, and other governmental and institutional action which impede the flow of imports.

If we take an objective view, it is quite clear that the issue of market access with Japan is not whether the market is open or closed. The Japanese market is our largest outlet for agricultural goods, and is substantially open to a wide variety of commodities.

Quite simply, the issue is this: Based on the identification of specific trade barriers, what can Japan do to further demonstrate that it will continue to open its import market as we have opened ours to their motorcycles?

In addition to the concerns of quota and tariff restrictions to American agriculture, Japan's plant quarantine restrictions are of vital interest to California farmers and exporters. These regulations restrict the importation of most deciduous tree fruits and most fresh vegetables on the basis that they are hosts to plant pests not found in Japan. There are also informal trade barriers with which to contend. It is apparently not uncommon for large Japanese trading companies to provide short-term credit to their customers, and this practice impinges on the ability of new suppliers and buyers to participate outside this financial circle.

Of further frustration to American businessmen is the Japanese system of food distribution. The chain for distributing domestic and imported goods is long and complicated, greatly adding to the cost of products to the end user. Food distribution in Japan, with importers, one or two wholesalers, brokers, jobbers, middlemen, and large numbers of small retail outlets, all exemplifies the inefficiency of products moving through so many hands.

Well, I have attempted in this sketch to set the stage for our hearing today and bring an outline of our problems to your attention.

Forgive me for this long introduction. We shall proceed immediately into our hearing.

Our first panel consists of Roland Anderson, from the U.S. Department of Agriculture. Mr. Anderson serves as the Assistant Administrator, International Trade Policy.

Is Mr. Anderson here?

And Richard King of Richard King International. Mr. King is known by many in today's audience and is a private consultant in the area of international trade.

Mr. Anderson, good morning.

Mr. ANDERSON. Thank you. Good morning.

Senator HAYAKAWA. Mr. King.

Mr. KING. Good morning, Senator.

Senator HAYAKAWA. In the interest of giving everybody a chance to talk, which I have not done, the time guide is 15 minutes plus 15 minutes for questions and answers.

Mr. Anderson, please proceed.

STATEMENT OF ROLAND ANDERSON, ASSISTANT ADMINISTRATOR, INTERNATIONAL TRADE POLICY, U.S. DEPARTMENT OF AGRICULTURE

Mr. ANDERSON. Mr. Chairman, I'm very pleased to appear before your committee here to discuss U.S. agricultural trade relations with Japan.

I think it's appropriate that you brought this hearing to California, a Pacific Rim neighbor of Japan and a leading supplier of a number of agricultural products to Japan. These products include such things as cotton, cattle hides, red meats, poultry, eggs, fresh and processed fruits and vegetables, nuts, dehydrated alfalfa, and many others.

Trade with Japan is, of course, important to all sectors of U.S. agriculture and I would like to discuss some of the issues that face the administration in facilitating this trade and the plans for dealing with them.

But first, I would like to emphasize that, despite the current difficulties in our bilateral economic relationships with Japan, the overall agricultural trade relationship is quite good. A few facts attest to this.

First, Japan is our single largest country market and has been so since 1964. In 1970, Japan became our first billion-dollar market for agricultural products and in 1981, U.S. farm export to Japan reached $6.6 billion which was about 8 percent up on the previous year.

Today, U.S. agricultural shipments to Japan account for about 15 percent of our total farm exports, and the Japanese rely on the United States for really more than one-third of their total food and fiber import requirements.

We feel we've made some significant achievements in the past in this market, however, we feel we can do a lot better in the future. Our approach to agricultural trade with Japan is well known. Our No. 1 priority is long-term, sustainable export growth in that market. We believe this growth can be best achieved in a trading system in which the market is open and insures equal access to all trading partners.

Our objective in Japan is less government and more market.

Given the vast size of United States-Japan farm trade, problems are inevitable. A basic factor is that Japan has a small inefficient agricultural industry that in large measure cannot compete with those of agricultural industries in other trading nations. So Japan has chosen to protect its agriculture selectively through the erection of barriers, that is, import quotas, tariff quotas, tariffs, state trading, administrative guidance, and strict standards.

At the same time, Japan has developed a strong industrial base that is a dominant force in the world export market. Japan now sells about one-fourth of all its exports into the relatively open U.S. market.

In contrast, as I mentioned earlier, there remain—despite significant progress we made in the Tokyo round of trade negotiations in the multilateral trade round that just finished—a number of real obstacles to exporting farm goods to Japan. The most unjustifiable and unfair of these are the import quotas, and therefore I would like to concentrate on them this morning.

Nominally, there are about 27 quota categories, 22 of which are agricultural and marine. But broken down by product, there are more than 50 individual agricultural and nonagricultural items that are subject to quota, the large majority of which are inconsistent with the principles of the General Agreement on Tariffs and Trade known as the GATT, which is the legal framework in which all trade takes place.

The key commodities of interest to the U.S. agricultural community that are under quota are well known; such things as beef, oranges, fruit juice, and leather. But there are many others including, for example, beans and peas, foodgrains, flour, peanuts, prepared meats, specialty sugars, artificial honey, fruit paste, canned pineapples, tomato juice and other tomato products, certain food preparations, ice cream powder, and infant formula and it goes on and on. These quotas as I mentioned are inconsistent with Japan's international obligations under the GATT and we feel they should be removed immediately.

In the case of beef and citrus, we have agreements on a scheduled quota expansion as a result of the Tokyo round of trade negotiations and we are committed to them to these agreements through March 31 of 1984. But the quota should be removed immediately after that date.

In the case of leather, we have an agreement that expires at the end of March, this year, at which time we believe the Japanese should remove the quota, the tariffs, and facilitate trade.

There is now, as never before, a consensus in the U.S. Government that Japan must move boldly to remove its formal and informal barriers to trade, both in agriculture and in nonagriculture. When I say there is a consensus, in my 20 years in Washington I have never found that consensus so strong and the frustration so great when talking about the Japanese market and access to the Japanese market.

We believe that the rising trade deficit which reached $15.8 billion in 1981, is a manifestation of the fundamental trade problem of insufficient access to Japanese markets in which we are competitive.

In agriculture, the U.S. Government position has resulted in a call on Japan to remove the quotas immediately within the framework of existing agreements. We have recently taken the following steps to seek progress from the Japanese on the quota issue:

We formulated an interagency position which was cleared by all departments of the Government which was expressed at the bilateral trade subcabinet meetings held in Tokyo on December 8 and 9. Ambassador McDonald told the Japanese at that time that we had reached a watershed in our trade relations with Japan. He pointed out that it was up to the Japanese to take action to fundamentally change the way in which they conduct their import business. Here we refer not only to the quotas but to customs clearance, to the food additive issues, to the labeling, to the strict standards, the tariff quotas, and to administrative guidance, all of which are part of the frustration that American businessmen have in doing business with Japan.

We made it clear that the restrictions had to go if the Japanese expected to continue to have access to the U.S. market on the terms that they have them today. Both Congress and the executive branch followed through on this position and when Japanese officials visit the United States they hear the same message.

Director-General Sano of Japan's Ministry of Agriculture, Forestry, and Fisheries was here. Mr. Sano visited with Secretary Block, with Assistant Secretary of State Hormats, Ambassador McDonald of USTR and Congress and he received the same message in all of these calls that he made, that is, that the import restrictions and the market access to Japan had to be improved.

We have made it clear to the Japanese that although their December announcement on tariffs and their January announcement on the nontariff barriers were positive first steps, the measures did not go nearly far enough in addressing our key trade concerns. Quotas, for example, were not addressed in the nontariff barrier announcement in January.

In addition, I want to say that we were quite disturbed by a report from Tokyo that Japanese officials may be reading the situation wrong here in the United States. In particular, Mr. Iwamochi, who is the chairman of the ZENCHU, the Central Union of Agricultural Cooperative, visited Washington recently and called on U.S. agricultural leaders and producer groups around the State. Unfortunately, we read in press reports that the ZENCHU thinks that maybe there is not a full concerted U.S. position relative to Japan and that perhaps the entire U.S. agricultural community is not behind this effort. I would like to set the record straight here today that the entire U.S. ag community is behind it and the entire U.S. Government is behind it and we're committed to this course that permits fair and unimpaired market access for our farm products.

We will continue to work to eliminate the quotas and other trade barriers. Later this month, we'll have a Japanese parliamentary delegation visit the United States and we'll have another opportunity to discuss with them and make our views known.

In addition, the United States has proposed another bilateral subcabinet level meeting for late February, either here in the United States or in Tokyo. We will point out again as we have in the past that unless Japan takes action to further open its market, they are very likely to face a shrinking market in the United States.

This is a very real concern in the light of trade legislation, particularly reciprocity legislation that's currently being considered in the Senate. On quotas specifically, the lack of concrete action on the part of the Japanese will leave us no choice but to go to the GATT to resolve the issue.

From the perspective of the past two to three decades, it is clear that the steps Japan took in the past to open its market—for example, liberalizaion of grains and lemons in the 1960's and grapefruit in the 1970's—have conferred enormous benefits on both countries. We are hopeful that the leadership of Japan has the vision to continue to liberalize and to build on that trade that has served both Japan and the United States so well over the years.

Mr. Chairman, I welcome your interest and support in dealing with this important trade problem, and I will be happy to try to answer any questions that may come up.

Senator Hayakawa. Thank you very much, Mr. Anderson. I do have some questions, but meanwhile I'll ask Mr. King to present his position if you will, Mr. King.

Mr. King. Thank you, Senator. It's always good to see you and, as you know, I've had the privilege of serving on your International Advisory Committee and I've enjoyed those experiences very much.

Senator Hayakawa. I'm grateful for your help in that.

STATEMENT OF RICHARD KING, PRINCIPAL, RICHARD KING INTERNATIONAL, LOS ANGELES, CALIF.

Mr. King. It's a privilege to be here and I'm pleased to be participating in these hearings on California-Japan agricultural trade. As many of you know here, I have been involved in international trade for over 20 years as a business executive and Government official and a private consultant. As the Senator pointed out, I'm pleased to have numerous California agricultural organizations among my clients. I am also the international trade adviser to the California Chamber of Commerce.

Lastly, I think I should point out, Senator, that I did serve as California's first director of international trade from 1978 to 1980, and in that capacity spent a good 75 percent of my time on California agricultural export concerns.

The final comment I'd like to make by way of introduction is that I've also done business with the Japanese for over 20 years of my life. The reason I point all this out is that I come at this from three perspectives: One of having a great deal of experience in California agriculture; second, with the Japanese; and, third, with the State government.

So it's perhaps a bit of a unique perceptive.

I think that to effectively address the agricultural trade issues concerning California and Japan, it's necessary to focus on the present environment surrounding our overall trade relationship. Very frankly speaking in my 20 years of experience in this business, as Bud Anderson has pointed out, I've never seen so much attention and confrontation in the trade and economic area: Automobiles, semiconductors, machine tools, agriculture, just to mention a few. And to make it worse, in my opinion these issues are beginning to be interrelated, linked with each other rather than dealt with as individual commodity negotiations.

Furthermore, trade issues are now further linked with defense and strategic considerations. Here in California, all this is further exacerbated by the Medfly quarantine issue and threats of boycott. Now some of our State legislators are even linking the Medfly with the unitary tax. I think this paranoia was carried to its ultimate extreme last week in last Sunday's Los Angeles Times where raids by U.S Immigration officials in Little Tokyo to apprehend Japanese illegal aliens were viewed by some as reprisals against Japan's unreasonable position on the California Medfly issue. So things are really getting to a ridiculous extreme.

And finally, as we look at the current California-United States-Japan picture, we must recognize that this whole basket of issues is being highly politicized due to an $18 billion trade deficit with Japan, an increasingly internationally competitive Japan, a decreasingly internationally competitive United States, a current recession in our country with high unemployment, a slow reacting Japan to U.S. demands for further liberalization of its markets, and of course, last but not least, an election year in the United States.

So, Senator, I hope that these hearings today can cut through some of this morass and perhaps lead to more constructive solutions.

So it's within the framework of tension and confrontation and emotion and political overresponse that we've got to look at California-Japan trade and particularly agricultural trade. It's important to keep in mind the magnitude of what I like to call the California-Japan connection. It's tremendous: $16 billion in two-way trade; 700 Japanese companies here in the State of California employing over 100,000 people, Californians; trade growing at the average of 15 percent annually between California and Japan; and, believe it or not, California exports growing faster than its imports. But still, as a State, we look at a $3\frac{1}{2}$ billion trade deficit with Japan.

As was pointed out, Japan is California's most important trading partner. Forty-eight percent of our Pacific Basin trade is with Japan. Twenty-eight percent of the State's total trade is with Japan. Not to mention the sizable Japanese manufacturing investment in our State contributing to our tax and unemployment.

Now, within that broader perspective of California-Japan trade, let's look at the subject of agricultural trade.

Our State exports over 25 percent of its $16 billion production. We are the third largest exporter of agricultural products in the country. Our leading exports you are already familiar with: Cotton, almonds, grapes, wheat, rice, oranges, lemons, walnuts, cattle and dairy products, peaches, and prunes.

Thirty-five percent of our State's harvested cropland is utilized for export. According to my estimates, about 90,000 California jobs are created by exports. The interesting thing we must keep in mind, as you know, Senator, we're not a wheat and corn State. We're a specialty crop producer and as a producer of specialty crops we dominate U.S. exports. As a matter of fact it's interesting, in 11 commodity areas California produces 100 percent of U.S. exports. As an example, almonds, apricots, raisins, prunes, walnuts, and clingstone peaches.

As for Japan, that country is our largest agricultural trading partner, absorbing about $1.8 billion or nearly 9 or 10 percent of our whole production. Our agricultural trade with Japan has enjoyed about a 10-percent annual growth for the past 5 years and we're at the point where it's close to 50 percent of this State's agricultural exports go to Japan.

Now, there are various reasons for whatever success we have achieved in the Japanese market, including Japanese dependence on food imports, a very aggressive marketing effort on the part of many of our commodity groups, particularly almonds, citrus, grapes, raisins, walnuts, and prunes. And when we talk about California's agricultural trade with Japan, we must mention the success that we achieved in the Tokyo round of the multilateral trade negotiations during 1979.

For the first time in my experience agriculture did have some kind of priority in the MTN in 1979 and California agriculture did get some positive results. We didn't get all we wanted, but we got more than we had. We got an increase in Japanese citrus quotas, reductions in citrus duties, and also reductions in a variety of fruits, nuts, and vegetables. This played a major role in the expansion of California exports. Again, according to my estimates, as a result of those concessions in the agricultural area during the multilateral trade negotiations, California agriculture was able to participate in approximately $500 million worth of markets that it did not have before.

Citrus became an important subject during those MTN's and here are some of the concessions we got in citrus from Japan and other concessions are as follows: In oranges we got an increase in exports over 1976 levels to approximately 67,000 metric tons by 1983. Lemons, we got a cut in the duty from 10 to 15 percent. We got a reduction in other areas such as grapes, almonds, raisins, prunes, and so forth.

Canned peach duty came down from 25 to 15 percent. Fresh grapes came down from 20 to 13 percent. The almond duty from 9 to 4 percent.

So, again, to sum this up, we did get access to about $500 million worth of market that we didn't have before. I want to make it clear, it did not mean that we got $500 million worth of more business. It means that we could compete for $500 million worth of business.

Senator, with the facts that I've presented so far, one might think that all is well in the agricultural trade between California and Japan. Unfortunately, such is not the case. There is frustration on the part of California agriculture and some rigidity on the part of Japan. And much of it in my opinion is due to the lack of understanding on both sides, and a lack of appreciation of respective positions. And, of course, a lot of our troubles are caused by the fact that agriculture is a highly politically sensitive issue in Japan, and in the United States, including California.

Japan's Liberal Democratic Party derives its strongest support from the rural farming interest. And agriculture here in the United States and in California has considerable clout in Washington and Sacramento. Such circumstances present difficulties in conducting sound, progressive, technical and commodity negotiations.

Finally, Japan sincerely believes it has moved and is moving rapidly to liberalize its agricultural markets, and California believes Japan is moving slowly and ineffectually. California agriculture is losing patience and demanding increased access to Japanese markets now.

You will hear the specific concerns from the representatives who will be speaking later today, and I will not repeat them here. But I do want to emphasize that, for the most part, it is the nontariff barriers that are the troublesome issues. The concerns that California agriculture has with regards to accessing the Japanese market include inspection procedures, technical analyses, chemical standards and their application, distribution methods, quotas, health standards, acceptance of foreign testing and research data, customs procedures, and observance of GATT rules and regulations.

Sunkist, California Almond Growers, Sun Diamond, and the Table Grape Commission will all address themselves to these concerns. The California Winegrape Growers will be asking for increased access to the Japanese market for California wine via lower tariffs and removal of nontariff barriers, and they will be asking for a 2-year extension of Presidential negotiating authority on tariffs.

We must mention the political boundary problem concerned with the Medfly issue, although, Senator, I agree, I personally urged my fellow participants not to let that issue dominate these discussions. We have seen the first breakthough on this issue with Japan when it was agreed last month to allow lemons to be exported without fumigation. I believe that with the arrival here in early April of the Japanese technical team, and assuming no further spread of the Medfly, we will have USDA certification on containment, and will be shipping all fruits to Japan without fumigation from outside the quarantine area by the end of May.

Well, these are some of the present concerns among those of us involved in California-Japan agricultural trade. I think it is ironic, in a way, that this strong agricultural relationship between United States-

California, and Japan has been an almost continual source of tension since the dispute over the liberalization of beef and citrus quotas in 1977 and 1978. And this will continue in the future, because there will be continual pressure on the Japanese for liberalization due to quotas and other measures protecting its domestic farm sector.

These policies tend to deny full access to a market in which the United States and California are highly competitive.

Now, to be sure, the Japanese have liberalized significantly during the past 5 years, with only 22 items now subject to quotas as compared to 73 a few years ago, and only 17 items subject to import restrictions as compared to over a hundred 10 years ago. But as pointed out in the report last year of the United States-Japan economic relations group commonly known as the "Wise Men,"—which was four Americans and four Japanese, and I quote—"The fact that Japan still retains agricultural quotas assures that agricultural trade will continue to be an issue in American-Japanese economic relations. While farmers in both countries receive protection against competitive foreign agricultural imports, Japan's level of protection is much higher and affects the bilateral economic relationship much more seriously. The fact that the price of rice paid to Japanese producers is about three times the world price is the most obvious measure of the extent of the Japanese Government's agricultural protectionism."

What is needed to eliminate this pressure on Japan, and to rid the Japanese of the idea that agricultural imports will destroy their domestic agricultural sector is the restructuring of the Japanese agricultural system, and that's the basic problem; a restructuring that will result in an efficient-enough system to compete in international markets. Again, the "Wise Men's report addresses that issue and suggests reforms in land tenure, rice policy, and citrus and beef quotas which, as many of us know, have become symbolic of Japanese agricultural protectionism.

Finally, I would like to suggest some things that those of us in California and the United States at the Federal level can do to help our international competitiveness in agriculture.

First, I believe we need a strong agricultural export policy in this country based on two points, a domestic policy that improves the performance of our economy and strengthens our worldwide competitive position, and a vigorous agricultural trade policy that recognizes exporting as an international priority and not secondary. I know Bud Anderson agrees with that.

We have to have a commitment at the highest level of Government that gives exporting the same priority as it has in other countries. We must have the same tools to work with that are being provided to other countries, better export financing, less Government regulations, and better informational services.

I believe another thing that we can do in our country is to stop Government interference and outright attacks on agricultural cooperatives and marketing orders. The attacks by Government on these cooperatives and these structures show a complete lack of understanding of agricultural economics and the necessity of unified and cooperative action to export agricultural commodities competitively.

I also think we got to do a better job in agriculture of educating the Government and the average citizen to understand the importance of agriculture to California and to the country. We've got to understand that 25 percent of this Nation's vegetables are exported, 60 percent of its fruits and nuts are exported. That is a tremendous contributor toward balance of payments and it's an ideal export because it's a renewable resource.

And third, and Senator, this gets right to the heart of what you're involved in—from California agriculture's point of view, we must have a continued high presence in Washington because, historically, as we all know, agriculture in Washington has been many times concentrated in the corn and wheat area, the great Midwest. We are specialty crops in California. We have to receive the same attention as corn and wheat. We have to keep that firmly in the minds of our Government officials who carry out our trade negotiations as well as our people in Congress.

I would like to say at this point, Senator, that in my opinion, at the present time, we do have an administration that is increasingly aware of California's agricultural export goals, and I don't say this just because Bud Anderson is here. But we have an outstanding group of trade negotiators and technicians, both in the Department of Agriculture and in the U.S. Trade Representatives' Office.

So, Senator, this morning I have outlined what I see as the significant trends in California-Japan trade, the primary frictions in our agricultural trade, and some suggested approaches to lessen the tensions between these two great trading partners. Admittedly, I am probably more optimistic than some. I believe we have seen the worst, and that better days lie ahead. I believe that Japanese attitudes are changing and that they realize that their economic progress brings global responsibilities and requires further liberalization of their markets. Their attitudes toward agriculture are changing, and for the first time to my knowledge, the Japanese are publicly advocating less protection for Japanese farmers. In fact, Keidanren, Japan's most influential business organization, just last week came out strongly for agricultural reform and less protection for Japanese farmers. Japan realizes that Americans are becoming impatient because of a depressed economy, high unemployment, and they realize it is a political year. They know that it is only good business to assist the United States by allowing improved access to their markets because the alternative is increased protectionism in this country.

But the improved situation between us will not be easily achieved. It will only come about through responsible negotiating by knowledgeable Government officials on both sides, and realistic and sincere, strong support by the administrations and private sectors of both countries. It will not be achieved by well-intended but ill-informed politicians interferring with business and technical negotiations. It will not be achieved by the well intended but irrational action of special interest groups who can upset the progress being made in Government-to-Government negotiations.

Senator, I believe it is time for cool heads and firm hands. With responsible Government negotiating, encouraged by strong private sector support, we can achieve effective harmonization of agricultural trade between the U.S. and Japan in general, and with California and Japan in particular.

Senator HAYAKAWA. Thank you, Mr. King.

As a lifelong attender at meetings, it's been my observation that the mind can take in only as much as the rear end can endure and I suggest that we stand up for a minute and let the blood circulate for a little while. Turn around, shake hands with your neighbor. [Laughter.]

[Thereupon a brief recess was taken.]

Senator HAYAKAWA. We are running a little behind time, therefore, I will cut the question period a little short. But before I do that, I see that Allan Grant, former president of the California Farm Bureau and American Farm Bureau, long-time participant in the United States-Japan trade scene, is in the audience today. Will you stand and be recognized, Mr. Grant. Glad to see you here.

We'll limit the questions, Mr. Anderson and Mr. King, to just one or two.

Mr. Anderson, has the administration apparently chosen to focus its strategy on Japanese import quotas? Is this strategy to the exclusion of other barriers to U.S. agriculture trade to Japan such as excessively high duties, questionable standards, quarantine regulations and so on?

Mr. ANDERSON. We've chosen as a start to go after the import quotas because they're in violation of the GATT, for one.

Senator HAYAKAWA. I see.

Mr. ANDERSON. And they've been in violation for almost 20 years now. When the international monetary fund removed the balance-of-payment cover for the Japanese quotas in 1963, since that time these quotas have been really illegal and they have not been challenged as such. That's not to say that we're not going to be pressing equally as hard on the other measures, the other nontariff measures because I feel, as Mr. King does, that some of these are equally important, the customs procedures, the administrative guidance, the strict standards, some of these. So we will be pushing hard in that direction.

Senator HAYAKAWA. Will you stay closer to the microphone? Can everybody hear all right? If you cannot hear all right, can you raise your hand. That's good.

Mr. Anderson, do you believe we should press for another round of multilateral trade negotiations in which agriculture would be stressed? How long since the last one?

Mr. ANDERSON. We concluded the Tokyo round of trade negotiations the end of 1979.

Senator HAYAKAWA. Yes.

Mr. ANDERSON. And that started in 1973 with a ministerial meeting in Tokyo. There is another ministerial meeting planned for Geneva in November of this year. Every time there has been a ministerial meeting it has been the kickoff of some negotiation. I don't think we'll get into a tariff negotiation or a traditional type negotiation as we've had in the past, but there are several areas, particularly trade in services, export credits, investments, and I think on the agricultural side in particular, the subsidies and counterveiling duty code and the subsidy issue in general that we would like to take up as well as the nontariff barriers to trade.

So to answer your question, Senator, I think we will see some agenda set up and agriculture will be part of that agenda. How deeply we'll go into agriculture beyond the subsidy issue and maybe some of the nontariff barrier issues remain to be seen.

Senator **Hayakawa**. Thank you.

Mr. King, while you're here, I'd like to ask a couple of questions. You seem to be optimistic about the progress on the Medfly crisis as between California and Japan. On what do you base the optimism?

Mr. **King**. Senator, I base the optimism primarly on a couple of things, but basically on what I get as good feedback from the Japanese side. I feel that things are going quite well in these technical negotiations on the issue. I think the momentum is beginning to swing our way, you might say, in terms of California. So I am quite optimistic that, assuming again no new finds, that we will have an elimination of this problem as I said by May.

Senator **Hayakawa**. You believe that the eradication efforts have been sufficiently successful?

Mr. **King**. Yes; as you know, you know better than anybody else here, that one of the concerns of the Japanese on this Medfly issue is primarly it's a health problem; it's a technical problem; it's a disease problem. I believe as soon as they're assured more than they are now that this is under containment, that they will, because of these pressures, rapidly move toward allowing oranges, grapefruits and lemons to be shipped to Japan without fumigation from outside the quarantine area.

Senator **Hayakawa**. Mr. King, I'll ask you one big, big question. As you mentioned, agriculture in Japan is a prime political concern to the Liberal Democratic Party which draws much of its support from farmers. Do you really think it's politically possible to change this attitude on agricultural protectionism?

Mr. **King**. This is a big, big question.

Senator **Hayakawa**. It's a tough one.

Mr. **King**. I guess by nature, again, I tend to be an optimist. I do believe, and I mentioned some comments in my formal comments, I do see a growing recognition on the part of the LDP that there is a need for change in that basic agricultural policy. As I said, they are for the first time openly talking about it. The only thing that occurs to me is that I believe, and this is strictly conjecture based on my familiarity with the Japanese, but I believe the LDP, the politicians are ready to take more political heat, as you might say, and I believe they feel that when they look at the Japanese farmer and his political support and they're saying to themselves, "Well, if we don't give the farmer everything they want, where else are they going to go?" I don't think the farmer has many other places to turn than the LDP.

So I do believe that they're going to address that issue. I think it's not going to happen overnight, but I believe there's movement afoot by the Japanese in terms of their own interest and pressure they're getting from the United States and others around the world that they know that the basic problem is the reformation of their agricultural policy and I think it's going to happen.

Senator **Hayakawa**. Well, I think that in your presentation the one big piece of news so far as I'm concerned is your sentence that said that the Keidanren which is a powerful advisory group as well as economic organization, the "* * * Keidanren, Japan's most influential business organization, just last week came out strongly for agricultural reform and less protection for Japanese farmers."

Mr. King. Right.

Senator Hayakawa. And the Japanese farmers didn't throw them out of the country.

Mr. King. That's right.

Senator Hayakawa. Well, thanks, Mr. Anderson, thanks, Mr. King. We should go on to our next panel.

Our next panel consists of Mr. Henry Voss, president of the California Farm Bureau—Mr. Voss, good morning—Les Hubbard of the Western Growers Association.

Mr. Hubbard. Good morning.

Senator Hayakawa. Good morning, Mr. Hubbard.

Harry Krade, of the California Department of Food and Agriculture. Good morning, Mr. Krade.

Richard Rominger, director of the California Department of Food and Agriculture, has just come in. Would you like to stand up and be recognized, Mr. Rominger? I've seen your name in the papers an awful lot lately. Glad to see you, indeed.

Shall we try to limit ourselves to 10 minutes each for your presentation, and if they are longer, will you try to condense them a bit? We will have, I hope, 20 minutes for questions and answers.

Before we do that, I want to say one thing. I've been on the Senate Agriculture Committee for 5 years now, a little over 5 years. California has not been represented on the Senate Agriculture Committee for a long time. In the 20th century the past history has been that George Perkins served on the Senate Agriculture Committee from 1905 to 1910, a full 6 years. Sheridan Downey served during the 79th Congress for 2 years from 1945 to 1946. William Knowland served 1 day on December 18, 1945. That's the whole history of our participation in the Senate Agriculture Committee until I came along.

When I learned that we hadn't been represented on the Agriculture Committee, I asked specifically if I might serve. So I telephoned Senator Herman Talmadge who was then chairman of the Senate Agriculture Committee and asked if I could serve. He said, "Be very, very glad to have someone from California which is our most important agricultural State serve on the Agricultural Committee," and I said, "Thank you very much."

But he said, "By the way, how much do you know about agriculture?" And I said, "Nothing, but I 'm willing to learn." So the last 5 years has been an enormous experience for me in learning what the difference is between zucchini and horseradish and all the other things one has to know as a member of the Agriculture Committee. I'm very, very proud that I have learned as much as I did learn and I'm very, very sorry that I can't continue with this part of the job while I resign everything else.

Anyway, when you get your new Senator, pin him down and make him serve on the Agriculture Committee whether he knows anything about agriculture or not. Make him learn.

All right. Mr. Voss, would you like to start out?

STATEMENT OF HENRY J. VOSS, PRESIDENT, CALIFORNIA FARM BUREAU FEDERATION

Mr. Voss. Thank you, Senator.

Good morning to you and I am very happy to have you be a Senator representing California on Agriculture for the last 5½ years. It was great that you recognized right from the beginning how important agriculture is to the country, but to California particularly, and, once again, I thank you for being a member.

My name is Henry Voss, and I am president of the California Farm Bureau Federation, which represents over 94,000 member families in California. In addition, I farm 500 acres of peaches, prunes, nuts, grapes, cherries, and watermelon in Stanislaus County.

I am pleased to appear before you today to discuss our agricultural trade concerns with Japan. I would like to outline the importance of trade with Japan, both to the United States and California, and the reasons for maintaining and expanding agricultural exports to Japan. I would also like to point out some aspects of Japanese agriculture and Japan's agricultural policy which result in barriers to free trade between our two nations.

The Farm Bureau is proud to have a free trade policy which supports efforts to reduce trade barriers among nations. We support a market-oriented agriculture and oppose agreements which allow restrictions to be imposed on the sale of agricultural products.

The United States and Japan are very important trading partners. In terms of our overall exports, Japan is our No. 2 customer after Canada. In terms of imports, Japan is our No. 2 supplier, again following Canada. In 1980, the United States had a $10.1 billion trade deficit with Japan. In 1981, the deficit grew to $18 billion, an increase of 78 percent.

Agriculturally, Japan is our No. 1 customer and is the largest export market for U.S. agriculture. Over 15 percent of our agricultural exports are marketed there. Total agricultural exports to Japan from the United States were over $6 billion in 1980, out of our total exports worth $44 billion. On the import side, however, Japan sends us only $105 million in agricultural products. On the whole, agricultural exports accounted for 30 percent of our trade with Japan and nonagricultural goods accounted for nearly 100 percent of our imports from Japan. It is clear that agriculture has been a significant contributor to reducing the U.S. trade deficit.

To supply the Japanese consumer with the needed agricultural goods, it has been estimated that 14 million U.S. acres were used here in the United States which is close to the total crop acreage in Japan in 1978. Over one-third of the food consumed in Japan comes from American farms.

Japan is reportedly only 44 percent self-sufficient in agriculture overall, and is therefore quite dependent on the United States for food.

California plays a major role in U.S. trade with Japan. According to a preliminary USDA study, California accounts for $140 million worth of exports in fresh fruit and nuts alone. The total value of California agricultural exports to Japan was $1.8 billion out of the U.S. total of $6.1 billion.[1]

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[1] See p. 71 for specific commodity information.

Agriculture is the only trade account with Japan in which the United States has a positive balance. Clearly, maintaining this surplus in our agricultural trade account with Japan is in the national interest of our country. Since California products comprise approximately 30 percent of this total, maintaining the level of this positive balance depends upon California's being able to maintain its share of the Japanese export market.

This export ability has been limited in the past by Japan's general policy of protecting domestic agriculture. This protection has been a longstanding policy with a history of broad national support.

To effectively deal with Japan, to both maintain and increase U.S. exports, it is important to understand their domestic agriculture. It has been stated that, until their domestic agriculture problems are worked out, continued negotiations may be difficult.

Trade problems with Japan basically stem from overrepresentation of farmers in the government compared to the general population. Their vote has been estimated to be at least six times the urban vote. The high influence of their relatively small-scale agriculture dictates that domestic farmers must receive high prices supported by import restrictions and support programs. The support program for rice, their main agricultural commodity, is said to have warped the entire agricultural economy. Japan's rice farmers may receive up to five times the world price.

In brief, the Japanese Government's agricultural policy goals are to increase the self-sufficiency of Japanese agriculture, secure a continued supply of improved agricultural products through good relations with importers, modernize domestic agriculture, raise farm income compared to that of other sectors of the economy, and preserve the farm sector to reduce urban migration.

Due to the limited area of arable land relative to the population, the Japanese Government is also sensitive to its dependence on the outside for food. In 1978, for instance, not an atypical year, Japan's cereal imports were 1.8 times the size of its domestic production, including rice. If rice were to be excluded, imports were 32 times as large as its own domestic production. Japan also imports a large share of its fruit, meat, fish, and dairy products.

In implementing agricultural policy and dealing with domestic problems, the Japanese Government has attempted to reduce competition by imposing both tariff and nontariff barriers on imports. Eighty percent of Japan's agricultural imports are in the bulk commodity area, and 20 percent are in the "consumer ready" category. The "consumer ready" commodities, such as meat, dairy, fruit, vegetables, and nuts, have felt the impact of these restrictions more so than "bulk" commodities, as the latter are used for further finishing in the country. These barriers may include high or variable tariffs, as on oranges; import quotas, as with beef, citrus, and fruit juices; quarantine measures such as the prohibition of at least a dozen California fruits and vegetables because of pest concerns or unnecessary fumigation requirements; and health restrictions on proposed products; for example, past problems with the OPP fungicide on citrus, or refusal to allow ferrous gluconate in canned olives.

The tariff and quota restrictions are up-front limitations that have been negotiated with some degree of success in the past. The problems of plant quarantines and health requirements are not as openly dealt with. Plant quarantine measures are very strict, and often unreasonable. The required fumigation of California products from farms hundreds of miles from any known or suspected Medfly infestation appears to us to be directly aimed at restricting trade unilaterally rather than protecting Japanese agriculture from a Medfly infestation.

The Japanese restrictions not only exceed the USDA quarantine actions, but also include items that are not known as Medfly hosts anywhere on Earth. One has to wonder how much of an effect the mandarin surplus that some Fresno farmers of Japanese origin saw in their trip to Japan last fall had on Japan's quarantine decisions.

Health requirements for processed foods have also effectively limited exports to Japan. The Ministry of Health and Welfare has required that various "needs tests" for additives be made, and stricter tolerances be set, than are internationally accepted. The Japanese are known for writing simple and somewhat vague rules to cover complex formulations or processing methods. Trading is made more complex because inspectors at individual ports have the final authority to accept or reject a product.

When all of the governmental restrictions are combined with the relatively inefficient marketing system of Japan, the resulting retail price can be so high that import demand is limited. It has been estimated that free access for U.S. products now under quota limitations alone could mean an additional $0.5 billion or more in annual U.S. exports to Japan within 3 to 5 years. Given rising income in Japan and the fact that beef, oranges, and citrus juice are all on a quota system, the bulk of the increase is projected to come from these products. As California is a major supplier of the U.S. beef, oranges, and citrus juice imported by Japan, much of this increase would be income for our farmers.

Economically speaking, this flow of trade in agricultural goods to Japan and nonagriculture goods to the United States can be mutually beneficial. Each side tends to trade what it is able to produce by comparative advantage. In the case of Japan and the United States, the comparative advantage for Japan tends to lie in automobiles and electronics; for the United States, in agriculture.

The principle of comparative advantage demonstrates that it is in the best interest of both countries to trade when relative prices differ, and each has an advantage in the production of one good versus the other.

Consumers in both countries can benefit from trade by getting more of both goods at cheaper prices. Further, reveneus from selling goods in the other country can be used for investments in productive activities, including those in which there is a comparative advantage, to generate more goods, jobs, and income. In an open, or free trading economy, scarce capital would flow to the most productive uses.

This free trade model, based on comparative advantage, is the ideal. Barriers or restrictions can interfere with this flow. Efforts to protect someone's or some group's income in the economy from shifts in purchasing power, or efforts to redistribute income interfere with the allocation mechanism of free trade.

Reported development in Japan's agricultural policy indicate that the general public, and possibly Government officials, may be question-ing the Government's restrictive attitude. The goal of raising the farm income to that of the urban sector was reached in 1980. The goal of maintaining good relations with importers, especially the United States, has certainly not been reached. Public resistance to rising national budget outlays for small scale and inefficient agriculture is increasing. When this is combined with the loss of support for the main rural political party, the long-term outlook has been reported to be far less favored Government treatment of domestic agriculture.

To reiterate, the United States is Japan's largest export market and the primary source of its imports. Japan is our second largest export market and our primary market for agricultural exports.

Continued efforts toward free trade between Japan and the United States is in the best interests of both countries. For Japan, elimination of agricultural trade barriers would lead to greater quantities of food available, increased variety, and lower consumer prices. The expansion of agricultural trade would help reduce the U.S. trade deficit with Japan and raise U.S. agricultural income.

Senator HAYAKAWA. Thank you, Mr. Voss.

Mr. Anderson, I would like you to join me up here on the dais as the representative of the U.S. Department of Agriculture. Please feel free to question the rest of the witnesses. Would you like to do that, Mr. Anderson?

Les Hubbard of the Western Growers Association. Would you please proceed.

Mr. HUBBARD. We much appreciate the opportunity to appear here this morning.

Western Growers Association is a trade association which represents the fresh vegetable and food industries of California and Arizona. We have been particularly interested. Incidentally, sir, in the interest of time, I'm just going to summarize the statement.[1]

Senator HAYAKAWA. Yes. Thank you.

STATEMENT OF LES HUBBARD, SENIOR VICE PRESIDENT, WESTERN GROWERS ASSOCIATION, IRVINE, CALIF.

Mr. HUBBARD. We have been particularly interested in the Japanese market for our vegetables and fruits since the early 1970's, starting with the trade show in Tokyo in 1973.

As our members developed a market, however, they also developed problems, and it seemed to us that the problems increased in direct proportion to the size of our shipments to Japan. Japanese inspectors found all sorts of bugs and problems that were not apparent to the shippers on this side. Lettuce and celery particularly faced fumigation requirements in Japan that severely damaged quality and shelf life. Strawberries could not meet Japanese standards, although the procedures followed that country's requirements meticulously. Adding to our frustration was the fact that the inspection and the determinations did not seem to be either uniform or consistent. We found arbitrary exclusions of such crops as cabbage, carrots, radishes, and turnips, because of pests that do not exist in California and never have.

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[1] See p. 74 for the prepared statement of Mr. Hubbard.

In spite of all this, some items have done very well as we all know. Grapefruits, lemons, oranges, melons, grapes, and onions have all found a relatively good market in Japan.

The sad part of this is, of course, is that the exporters in the United States are not the only ones who have suffered. The restrictions on imports, added to the highly inefficient distribution system in Japan, have cost the Japanese consumer very dearly. It's estimated that the Japanese consumers pay a penalty of about 25 cents for every dollar of gross agricultural production in Japan. This amounts to about $10 billion a year added to the Japanese food price. Of course, the most recent example is the quarantine of the entire State of California over the Medfly situation. But to us the most significant fact was that the Japanese added strawberries, melons, and smooth-skinned lemons to the host list. Strawberries and melons were enjoying an excellent sales record in Japan at the time the quarantine was imposed. It is estimated that the imposition of this quarantine has cost the California shippers of fresh fruits and vegetables about $16 million lost sales as of this month.

The sad thing, of course, is that Japan has no opportunity of achieving self-sufficiency in production. The country about the size of California has a population of over 120 million people squeezed into 19 million acres. Only 13 million acres of that beautiful country are available to agriculture compared to California with 100 million acres and 22 million people and 36 million acres available for agriculture.

Changes in the Japanese diet, westernization of it, if you will, will encourage the growth of more imports from the United States which leads us to believe that there is a future for us. Starting in 1973 with the fuel shortages and that sort of thing, we discovered that it was getting more and more expensive to ship our commodities to the east coast, particularly in competition with people from Texas and Florida who are anywhere from 1,000 to 2,000 miles closer to the market than we are.

We have the advantage over them, our competitors, on the Pacific Rim. We can ship from Oakland to Yokahama by ship in about the same length of time it takes us in rail or truck to New York City. We hope, therefore, that Japan correctly reads the current mood in the United States. There is a growing resentment, we believe, of trading partners who gleefully exploit the U.S. market, at the same time jealously guarding their own shores. We've heard it several times here this morning, and I think that the Japanese should take it to heart: reciprocity is a word being heard more and more in the United States today.

Thank you, sir.

Senator Hayakawa. Thank you very much.

Let's go on now to Harry Krade of the California Department of Food and Agriculture.

Mr. Krade.

STATEMENT OF HARRY KRADE, CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

Mr. Krade. Thank you, Senator. I'm very happy to have you folks here and to listen to our tale of woe.

I'm Harry Krade, the California Department of Food and Agriculture. I've been working in international trade for a number of years.

We are happy to have you here in California to investigate the problems our farmers are having in gaining access to world markets. I recognize that you are currently adressing yourselves to the problem of Japanese markets, but I would also like to draw your attention to the European Economic Community and other countries as well.

Early last mouth, for example, our raisin, cling peach and pear growers asked for and received a 301 hearing to try to get fair treatment from the EEC and to fight the clearly illegal and discriminatory subsidies which will force U.S. products out of European markets. But I am getting ahead of myself.

California agriculture is unlike agriculture in most other States. We are, of course, the largest producer of agricultural income. In the past year we realized a gross farm income of $14 billion from over 200 crops and 50 livestock products. This great diversity has both great advantages and great disadvantages. The advantages are that weather is less of a factor in influencing overall production, product prices do not necessarily follow the same pattern, thus allowing a greater income averaging and we market for many crops a processed product which gives employment to thousands of people in the agricultural and nonagricultural sector of our economy.

In many of our States the problems associated with export of farm products is that exports contribute very little to the nonagricultural segment of the economy except indirectly. Corn, wheat, soybeans, and other grains are exported unprocessed. Here we export specialty items such as peaches, grapes, tree nuts, and a multitude of other specialty crops, and these are of necessity processed prior to shipment and our domestic labor force enjoys the employment benefits directly and not merely indirectly.

Of the $14 billion of farm products we produced in 1980, $4 billion were sold in foreign markets. This amounts to about 23 percent of the total value of our market located in offshore locations.

For many products the export market means the difference between profit and loss or, better put, between survival and disaster. Without export market access, for example, our almond industry would be harvesting their orchards with chain saws. Fully 60 percent of all the almonds produced are sold overseas. The array of export-dependent crops and commodities in California is impressive.

The farm value of exports as a percentage of the total value of production for some of the important commodities is as follows:

For cotton lint, 87.5 percent; for rice, 79.8 percent; wheat, 78.1 percent; almonds, 60.7 percent; Ladino clover seed, 53.7 percent; dry beans, 41.9 percent; dates, 35.9 percent; lemons, 31.4 percent; prunes, 31.3 percent; onions, 29.1 percent; walnuts, 30.8 percent; grapefruit, 29 percent; and so on down the list.

For 11 leading crops, California produces 100 percent of the U.S. exports and we lead the Nation in 41 crops. All the exports of almonds, apricots, dates, figs, raisins, olives, cling peaches, prunes, walnuts, garlic and Ladino clover seed from the United States we produce. An additional 14 crops that we produced in California exceed 50 percent of the total U.S. exports: Fresh grapes, almost 100 percent; broccoli, almost 100 percent; processing tomatoes, 87.7 percent; lemons, 80.5 percent, and so on down the list until we get to pears with 50.6 percent.

Some of the important export crops are heavy users of land. Fully 36 percent of California's total crop acreage is planted to export commodities which are marketed abroad. Were it not for export these lands would either remain idle, which is unlikely, or be devoted to production for domestic markets which, for many products, we are already oversupplied. This would lead to disastrous economic consequences.

We do not really know precisely how much of our total exports each importing country buys. We do know, however, that Japan and EEC are probably the most important markets we have. In 1980, the Japanese market for all U.S. exports amounted to $6.6 billion of the total $41.3 billion exported. California enjoyed, we believe, at least its proportionate share of the Japanese market and probably did better than the average because of our proximity and the kind of products in the mix of Japanese imports.

Of the array of commodities Japan bought in 1980, we believe California's exports were a significant if not the primary source of supply. The dollar values follow the commodity identification: Alfalfa hay, 3.5 million; cotton linters, 485.8 million; cottonseed, 7 million; dry beans, 7.5 for the limas and we have white beans, red kidney beans, dry beans, and others which we end up with several million more; wheat exports from California, 596.2 million; almonds, 41 million; fresh grapes, 1.6 million. There are many, many, many more and I won't bother enumerating these. They'll be in my written statement.

While the aforesaid is an impressive list of products representing many millions of dollars in income to California farmers, I would like to point out that the potential is far greater than that which has already been developed. Japanese farmers have encouraged, nay, insisted upon a great level of protection of its industry in the way of both tariff and nontariff trade barriers. Japan clearly violates the General Agreement on Tariff and Trade, GATT, of which it is a member by the imposition of quotas and similar impediments to trade. Japanese farmers enjoy incredibly large subsidies on production of beef, rice, soybeans, and other commodities. These subsidies themselves are impediments to trade.

The recent and ongoing Medfly battle is, in our opinion, less a problem of pest introduction into Japan than it is a method of constricting trade. We do not blame Japan for undertaking all legitimate and proper quarantine to avoid pest invasion, but restricting imports of hosts from nonaffected areas and classifying nonhosts as hosts goes beyond any possible legitimate concern. I am sure that you will be hearing more about this from other witnesses.

In addition to this statement, I would like to introduce into the record a copy of my bulletin entitled, "Exports of Agricultural Commodities Produced in California," calendar year 1980, which is a product of our California Crop and Livestock Reporting Service and also our publication entitled, "California Agriculture," which is a summary of the principal crop and livestock commodities for 1980 which is a summary of the principal crop and livestock commodities produced here in California.[1]

Thank you very much for the opportunity to be with you.

Senator **Hayakawa**. Thank you, Mr. Krade. Thank you very much.

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[1] See p. 76 for the prepared statement of Mr. Krade. The above-referred-to documents, due to budget constraints, have been retained in the committee files.

Do you have any questions, Mr. Anderson?

Mr. Anderson. Maybe a comment. You commented, Mr. Krade, about the European Common Market. I just wanted to say that we are equally as concerned about the problems we're having in Europe. It relates to a number of other issues: processing subsidies which are restricting markets in Europe and also their export subsidy policy. This administration is also taking that head on so the Japanese don't have to feel that they're being singled out. I know this has been a concern. The Japanese sometimes feel that they're being singled out in their trade relations with the United States. But the European Common Market has a number of policies which are affecting the United States right now, particularly on the export subsidy side and the processing subsidy side and we're going after the Community equally as hard as we're going after the Japanese.

Senator Hayakawa. What kind of processing subsidy do they have?

Mr. Anderson. They have a processing subsidy that was just introduced last season on raisins, for example, which has really caused a stop in the trade of California raisins to the European Community. This is a major concern. In 1978 and 1979, they instituted processing subsidies on canned peaches and pears which are also quite a problem for us. But in general their export subsidies are hurting us. It's very interesting to note that the Community has moved from a net importer to a net exporter of grains for the first time in 1981 and this gives us a lot of concern. Not only grains, but sugar, meat, poultry, and dairy products. We are going to try to resolve those problems with the Community on the subsidy issue.

Senator Hayakawa. Mr. Hubbard, earlier this morning Mr. King discussed the bias toward midwestern crops displayed by past administrations. Could you tell me if you feel that there's been any change in present administration attitude toward California trade problems since the Reagan administration took office?

Mr. Hubbard. I wouldn't want to criticize the past too much, but I do believe there's a breath of fresh air that's swept through the place that's really refreshing. I think that cooperation between the Department of Agriculture and the Department of State in the last, particularly in this Medfly quarantine issue, has been really great. We're very pleased. We think the future is going to be much brighter.

Senator Hayakawa. Thank you.

This is a question that I would like to address to all three of you. What do you suggest that we in the Senate could do to address the problems which have been raised today? Are these matters for trade negotiators? Is there anything we can do in the Senate itself?

Mr. Voss. Senator, I would respond to that that I think a positive attitude and a positive statement coming from the Senate, coming from the administration, and I think we've had that in the Medfly fumigation problem, is probably the first step in telegraphing a position to Japan that we do mean to take necessary actions to develop a more free trade policy that we can live with as far as these nontariff barriers that we have had imposed in so many commodities and in so many ways in the past. I think beyond that we have to start to look at alternatives that we have and which I don't really like to think about to restrict Japanese trade coming in, I think that when our trading partners are assured in their own minds that we mean business rather than just talk, I think we can get down to negotiating some of those barriers that we face.

Senator **Hayakawa**. What was mentioned earlier is the structural change within Japanese agriculture itself; that is, liberation from the 2½-acre farm, the liberation from the labor-intensive kinds of rice culture in favor of a more greatly mechanized, more efficient form of agriculture. Is this something on which we can give technical aid or inspiration, or is it their own darn business to take care of?

Mr. **Krade**. I'd like to respond to that, if I may, Senator. I don't think that we can afford Japan a whole lot of technical aid because they have been coming here and learning all of our technology very, very well. This is part of the problem. However, I think one of the things that we might use as a tool for access to market is to make the public, the general nonfarming public, aware of the enormous cost that their subsidy program and their import restrictive policies are costing them.

Senator **Hayakawa**. To make the Japanese nonfarmer——

Mr. **Krade**. The Japanese consumers.

Senator **Hayakawa** [continuing]. Aware what their rice is costing them and how unnecessary that cost is to them.

Mr. **Krade**. That's correct. I think this is an approach that is inimical to their other interests.

Mr. **Hubbard**. Certainly any change in their agricultural enterprise understandably would have to be slow because they're so highly labor intensive at the moment that there would be a tremendous dislocation of people if you went into a sudden change. Second, I think the topography of the country is such that you're not going to have an enormous change anyway because I just don't think it's available.

Senator **Hayakawa**. That's true. At the same time, a large number of Japanese farmers are not totally dependent on their farms for a livelihood.

Mr. **Hubbard**. That's true.

Senator **Hayakawa**. That is, they work in factories during the day. Well, many farmers in this country do the same thing.

Mr. **Hubbard**. That's true.

Senator **Hayakawa**. They work in factories and then they work on the farms at the same time. So a lot of them are not totally dependent on their farms.

Mr. **Hubbard**. I think that's true. I think perhaps where we could help, and I don't have a suggestion at the moment, but there may be commodities which they could grow more economically than presently they do and they should concentrate on those things which they do well.

Senator **Hayakawa**. See what bothers me is the information I received not too long ago that, with this heavily subsidized Japanese rice, they're exporting the stuff and interfering with our export market in other countries.

Mr. **Hubbard**. That's right.

Senator **Hayakawa**. And, therefore, the poor Japanese taxpayer is paying for, not only the rice he eats himself, but the rice that is sold elsewhere.

Mr. **Hubbard**. That's right.

Senator **Hayakawa**. It is in many ways a preposterous situation.

Mr. Anderson. Senator, if I may.

Senator Hayakawa. Please do.

Mr. Anderson. I think we tend to talk about the dislocation and we apologize and say that the Japanese, if they in fact change their agricultural structure, it's going to put people, say, out of business, off the farm. I think we tend to overlook what Japanese imports have done in this country: the dislocation in the U.S. automobile industry, the dislocation in the steel industry as a result of Japanese imports. We, through an open trade policy, have let the marketplace sort of determine in those areas how we would react and how we do react to imports. The Japanese have prevented that from happening in agriculture in Japan and that's a fundamental issue that they have to address in my opinion.

Senator Hayakawa. We see hundreds of thousands of our people being thrown out of work by, essentially, the Japanese. We sort of take it for granted as part of the necessity of industrial change, and that's the kind of change they're resisting so successfully, and they don't seem to have an unemployment problem.

Mr. Anderson. Two percent.

Senator Hayakawa. Two percent is low.

Well, thank you very much, gentlemen.

Mr. Voss. Thank you, Senator.

Senator Hayakawa. Shall we take a 10-minute break. We are recessed for 10 minutes.

[Thereupon a recess was taken.]

Senator Hayakawa. I shall start our third panel by quoting something that has nothing to do with agriculture. Well, maybe indirectly it does. Tokyo, Bridgestone Tire Co., Japan's largest tire producer, will buy a Firestone Tire and Rubber Co. plant in Nashville, Tenn., with formal agreement to be signed this month.

Did you know that Bridgestone is a Japanese firm? Bridgestone is a direct translation of Ishubasri, which is a Japanese name, the name of the founder. The Japanese penetration to our market is very serious, indeed, in many things besides agriculture.

Well, our third panel consists of Steven Easter, California Almond Growers Exchange; Bruce Obbink, of the California Table Grape Commission; and Bill Quarles, president of California-Arizona Citrus League.

I shall start with Steven Easter, and you are allotted 10 minutes each plus 20 minutes at the end for all of you for questions and answers.

Mr. Easter.

STATEMENT OF STEVEN EASTER, CALIFORNIA ALMOND GROWERS EXCHANGE, SACRAMENTO, CALIF.

Mr. Easter. Thank you, Senator Hayakawa, and welcome to California and, particularly, to Sacramento, which is the home base of the California Almond Growers Exchange.

You have our statement that we've prepared. I'll try to summarize it for your behalf today and the audience here and I'd be happy to answer any questions you have.[1]

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[1] See p. 78 for the prepared statement of Mr. Easter.

I would like to start out by telling you a little more about the organization that I represent. The California Almond Growers Exchange is a cooperative marketing association. It was formed in 1910. It's located, as I mentioned, here in Sacramento and we have some 5,000-plus member growers throughout the State of California. That represents about 72 percent in number of the growers of almonds in California which is also the total production in the United States.

We receive and process and market almonds for our members and we sell in the United States and throughout the world and to many, many countries.

In 1980, the last crop for which we have complete statistics, almonds were California's leading food export item valued somewhere around $450 million and these represented about 1 percent of the total U.S. agricultural export business that year. So we've been a significant exporter for a number of years in the almond industry. A number of the other witnesses have referred to that fact. We at the exchange have opened about 88 foreign markets around the world and we gained a bit of experience in this effort.

One of the major successes we've had in world marketing has been in the Japanese market. Since we've introduced almonds into that market in the early fifties, there's been a tremendous expansion to the point where they are now our second largest market in the international trade area.

Now, in the development process of Japanese market, we have established our own office there and also entered into an export incentive program with the Foreign Agricultural Service for market development. We think these two elements have been extremely important in developing that market and are areas that we should look to, not only in almonds but in other commodities for market development. I think that's one of the things that we're trying to express here today is ideas that perhaps can be used for development of markets in Japan and other areas. Naturally, we've concentrated a lot on reducing or eliminating tariff barriers, but I think we should also look at the promotional aspects in some of the internal situations that we face.

I won't go into all of the detail of how the exchange has been able to develop the Japanese market, but I do want to stress the importance of the relationship between the industry and the Foreign Agricultural Service as representing the Government of the United States. Through this relationship we have been able to promote almonds very effectively and at the same time work toward reduction and, hopefully, eventually, elimination of the duties in that country.

It was recently announced, again, we believe through very effective pressure being put on them by the United States, that they are increasing their schedule of duty reductions in almonds bringing them forward by about 2 years. So that on April 1 of this year duty will be 5.9 percent on raw almonds and 12.3 on roasted almonds which was initially scheduled to go into effect in 1984. The full implementing schedule calls for 1987 duty of 4 percent. While we achieved that during the multilateral trade negotiations, certainly there seems to be little justification on the Japanese side for duty in that area at all. But the other areas perhaps have been even more difficult, and that is to penetrate very difficult market conditions in Japan. Then we've been able to do this, again, through the help of Foreign Agricultural Service and their market development program where we have jointly funded extensive promotional efforts in that market.

The help that we've had there allowed us to develop the market in segments including the confectionary market first, then into the food service market, and currently we're concentrating heavily in the consumer market, roasted almond products and whole almond products directly to the consumer. There we met with tremendous resistance in the distribution system which we were able to overcome by agreeing with the Coca-Cola bottling distributors in Japan to handle our product. I think we call it in the testimony a joint venture. In a true sense it's not really a joint venture. They're merely handling the product and distributing through their unique network in Japan. But it was only when we discovered this method of distribution were we able to begin penetrating the market.

Another area that I think many U.S. exporters have difficulty with is sort of penetrating this maze of the Japanese market, and we have been fortunate to find this succesful penetration. Again, with the cooperation of the Department and also the fact that we were able to establish our own office and hire Japanese management to assist us in sort of penetrating this maze. But based on our experiences in Japan, we know it's vital that there be this continued cooperation between government and industry to solve trade problems. In that regard, we want to thank the Senator for his continued support of the almond industry and particularly your important effort to have almond duty in Japan eliminated. Also, your strong efforts on behalf of farmers in holding hearings of this nature and also in sponsoring legislation to make the international sales corporation benefits more readily available to farmers.

It's a vital role that the United States has to play if we will take an aggressive position in promoting trade exports into Japan. I think that strong support must be given to the Foreign Agricultural Service of the USDA and to the market development programs they administer. FAS is providing an outstanding example of effective government. They work closely with the affected parties to reduce trade barriers and expand exports. This outstanding work must be supported.

In Japan, we are experiencing an enormous trade deficit of billions of dollars, yet our Government is spending only a few million to support market development. Each year it is a major effort to obtain appropriations to just current levels of maintaining development funds. At the same time we are spending billions of dollars to support the domestic agricultural activity either through price support mechanisms or other efforts. So let's commit more of our spending to where we can get a real and immediate return, and that is to the export market.

We've had the tremendous experience in Japan in almonds and other commodities and we can see that there is a definite beneficial return to U.S. agricultural producers from this effort. We think the commitment of $1 billion would not be unrealistic through the market development program that's being run by the Department of Agriculture.

We think we can then, using these kinds of funds throughout agriculture, provide the needed market for agricultural commodities, reduce the need to spend domestically to support agricultural programs and balance our trade with countries like Japan.

Thank you very much.

Senator HAYAKAWA. Thank you, Mr. Easter.

Before I go on to ask Mr. Obbink to present his testimony, I think I should introduce Allan Grant. Most of you probably know him already as the former president of the American Farm Bureau and the California Farm Bureau. I believe he is the only American who is recognized as a national treasure by the Japanese Government for his work. That was in——

Mr. GRANT. 1979.

Senator HAYAKAWA. 1979.

Mr. GRANT. 1979 they gave me the highest honor ever given to a foreigner. The same one that they gave Reischauer, Kissinger, Ford, Kennedy and a few others, about a dozen.

Senator HAYAKAWA. That's good. We're very proud to have you. We're also very proud to have Allan Grant as part of our panel and he'll question you guys, too.

So, Mr. Obbink, will you please proceed.

STATEMENT OF BRUCE J. OBBINK, PRESIDENT, CALIFORNIA TABLE GRAPE COMMISSION

Mr. OBBINK. Thank you, Senator.

I think I might do the same as Steve has and give a little background on what the California Table Grape Commission is.

We are an instrumentality of the State of California and represent all growers within the State that produce grapes for the fresh market. California produces approximately 408,000 tons of fresh table grapes each year. California growers are also responsible for the production of 97 percent of all fresh grapes grown in the United States for the fresh market. They are also responsible for all of the fresh grapes that are exported to offshore markets.

In 1981–82, growers exported about 34,500 tons of grapes to overseas markets with a value of $31,259,000. That's about 7½ percent of our total production. Table grapes have enjoyed a very buoyant export market during the past 10 years and have since 1972 doubled their worldwide sales. The success of that market expansion is twofold.

First of all, shippers of California fresh grapes have become more aggressive in their marketing techniques during the past 10 years and are actively seeking world markets. Along with the aggressiveness, there has been a change in general attitude in that the industry is now viewing the export markets an integral part of their marketing program and not just treating it as an out-of-sight, out-of-mind market.

Second, the promotional campaigns that are being conducted by the industry in cooperation with the Foreign Agricultural Service have been particularly beneficial. I believe if it were not for the professionalism of this network of agricultural attachés throughout the world, plus a competent staff of FAS people in Washington, we would not have seen this type of a gain in such a short period.

I'd like to focus a bit on Japan. Prior to 1965, table grapes were not allowed into Japan. During the late sixties through FAS efforts, grapes were permitted entry with a 20-percent duty. Japan is a large grape producer. They produce over 250,000 tons of table grapes each year and consume them in a very short period of time, giving them a per capita consumption in excess of 6 pounds per person. With Japan being in the same hemisphere as we are, their grape harvest is identical to ours. Therefore, we found we could not compete with Japan's home grown market during the summer months. We also found that some of our smaller berry sizes would not meet with consumer approval since the Japanese continue to peel each berry. After a careful look at that market, we decided that probably our best spot for marketing was going to be in the fall months, in November through February.

The California grape industry over the years has perfected the art of cold storing table grapes and those grapes that are harvested in September and October can be effectively stored until the following spring. This meant we could begin to move into the Japanese market during their off season. We began our market development program in 1973, and we have continued to enjoy a rather modest increase in exports each year.

In the midseventies, the industry increased their minimum grade for exports to Japan to U.S. Fancy in an attempt to satisfy the Japanese importer requirements, the Japanese consumer preferences. During the GATT negotiations we were able to obtain a duty reduction downward to 13 percent which is not an unlivable figure, although we would prefer to see it a zero base.

During the latter part of the seventies, the industry reached a high export of 2,800 tons to Japan with a value of $2,432,000 value. This may not seem to be a large figure when you're talking huge grain sales and so forth, but when taken in the context of our total world exports and versus our domestic consumption, it is a good market with a good potential.

Our exports to Japan would probably show greater volumes, however, the industry itself in California is unable to meet all of the export demands at this time. With export sales doubling over the past 10 years and with domestic per capita consumption moving from 1.8 pounds to 3.4 pounds per capita in the same period, the quantity of product is not as plentiful as it was 20 years ago. However, you can rest assured that the California table grape grower is not standing idle because he's planting very rapidly.

Our major problem with Japan is strictly one of marketing. We must in our own industry find ways to break some traditional Japanese habits of eating only certain fruits at certain times—when it's Mikan time, it's not grape time; when it's apple time, it's not Mikan time; and when it's grape time, it's not anything else's time. We have to overcome the habit of peeling every berry which slows down voluble movement, I guarantee you. [Laughter.]

We must also try to broaden our distribution pattern to the so-called Mom and Pop stores scattered throughout the countryside where the housewife shops one and a half times a day and not try to compete with just the fancy foodshops.

Our biggest deterrent to orderly marketing this past year in Japan has not been nontariff barriers, Japanese consumers or anything else, it's been the U.S. Department of Agriculture and the manner in which they have agreed with the Japanese officials to write inspection certificates. Over many years when a shipment of grapes was to be inspected for grade and sanitary conditions, the county inspector in cooperation and as an agent of USDA would sign the grade certificate and the phytosanitary certificate.

Along came the Medfly issue this year. Japan required that all grapes coming in receive the cold treatment for a minimum of 14 days. This posed no problem to the shippers since all grapes being marketed were coming out of cold storage anyway during the fall months. The shipper did have to incur some additional expenses by installing some rather sophisticated thermometers to monitor the pulp temperature. Once that was done the installation had to be inspected by USDA. The USDA then negotiated the manner in which certificates would be signed, certifying that the fruit for shipment had received the proper cold treatment. The agreement USDA yielded to, what they yielded to was to abandon their traditional system of allowing the county inspectors to sign this new piece of paperwork and said only USDA employees may sign the certificate. There is a couple of them in San Francisco and a couple of them in Los Angeles. That doesn't do much good in Delano, Exeter, Bakersfield, Reedley, and you name it. This additional paper shuffling has really caused a serious problem.

To follow through a typical situation, grapes are ready to be shipped and loaded onto the truck. The county inspector arrives and certifies that they are a U.S. Fancy grade. He certifies the phytosanitary conditions. The truck then moves to Oakland and the cold treatment certificates then have to be mailed to a USDA office in the bay area, or sent along with the driver to be presented to some USDA official.

Now the paperwork could arrive on a Friday, sit in the in-basket over the weekend, probably spend at least a couple of days in a routing envelope and, meanwhile, the grapes are on their way to Japan and in some instances this past year the grapes arrived before the paperwork arrived.

You can imagine having to telephone a Government official in San Francisco and asking where are my certificates, what kind of confusion that would cause. Under the former system, all the documents that needed to be transmitted were with the shipper. He could air mail them or send them by courier if necessary to the importer, and they would then clear the Japanese paperwork system well in advance of a shipment arriving and thereby minimizing the delay in the fruit moving to the market or having to have the fruit held in some cold storage in Japan.

We believe that if the county inspectors as agents of USDA are authorized to sign U.S. grade certificates and U.S. phytosanitary certificates at the shipping point, then they should also be allowed to sign cold treatment certificates. There is no doubt that this maze of paperwork has complicated the matter and caused some of our shippers to give up on the market, thereby causing some loss of market share.

In general, we do not believe we have any major nontariff barriers that are a constraint to our marketing. The Japanese market has a good potential for us and we intend to keep trying to solve some of our marketing difficulties and we would appreciate any assistance that could be offered by you and your committee in returning the certification system back to the shipping point and out of these metropolitan areas.

Thank you very much.

Senator HAYAKAWA. Thank you, Mr. Obbink.

I'm amazed about this grape peeling business. My father and mother came from a famous grape-producing province in Japan and, by gosh, I never saw my mother peel a grape in all my life. She must have been Americanized real early after she came over here.

Mr. OBBINK. Well, it's quite an art, you know. It's peeled very carefully.

Senator HAYAKAWA. I'm sure it is. [Laughter.]

Mr. OBBINK. I've seen them stand in lines and lines and lines. If we had a demonstration at a supermarket, we have to put out special containers for the peelings.

Senator HAYAKAWA. Mr. Quarles, would you please proceed.

STATEMENT OF W. K. QUARLES, PRESIDENT, CALIFORNIA-ARIZONA CITRUS LEAGUE, SHERMAN OAKS, CALIF.

Mr. QUARLES. Thank you, Senator.

It's a great privilege to be able to appear before you here today. It's an excellent idea to bring the Senate Committee on Agriculture to California. It's long overdue.

The California-Arizona Citrus League is a trade association of shippers and handlers of approximately 75 percent of the fresh citrus shipped from the two States. It includes an affiliated association, the California-Arizona Citrus League Processors Council which includes citrus processors of approximately 90 percent of the citrus juice processed in the two States.

Overall the industry in the two States is about a billion-dollar industry.

Any discussion of trade with Japan must begin with an examination of the tremendous imbalance of trade currently existing between the United States and Japan. The imbalance is not unexpected since the United States is an open market and Japan maintains historic barriers to imports. One need not be an economist to understand that under these conditions, Japan will always maintain a surplus in its trade account with the United States. At some point, the United States must decide whether it will continue to be employed by Japan for Japan's uses or whether it will insist upon being an equal trading partner with Japan.

The citrus industry serves as an excellent example of why the imbalance of trade exists. Before discussing this, the opportunity should be taken to congratulate the President and his administration for its development of a sound trade policy. It is very encouraging to the agricultural community to see that the administration is finally standing up to both Japan and the European Economic Community. We applaud and congratulate the administration for it and encourage it.

At this time I'd like to digress just briefly from my prepared text to join my colleagues in applauding the Foreign Agricultural Service of the U.S. Department of Agriculture. In our view, it's one of the premier agencies in all of Government and certainly returns the United States many, many times over the expenditures that we make to fund it. I definitely encourage the continued funding of that Agency and its various programs at appropriate levels.

The citrus industry has been particularly pleased with the administration's strong position expressed both in Tokyo and Washington by officials in USTR, Agriculture, Commerce, and State. It now seems clear that if Japan continues its deafness, the Congress will respond.

It is this industry's hope that Japan will accept international trading rules and live by them so that a confrontation can be avoided. Let there be no mistake, however, that this industry fully supports the administration and Congress in their insistence upon fair and reciprocal treatment.

Returning to the citrus industry example, it is easy to see why we have such an imbalance of trade. While citrus could not alone erase the current $10 billion U.S. trade deficit with Japan, increased exports of fresh oranges and other citrus products could certainly help. If we are to prevent the projected $48 billion deficit by 1990, then citrus must increase its exports to help. This is undoubtedly why Ambassador Brock, at every opportunity, discusses the need to eliminate the Japanese quotas on fresh oranges and other citrus products. The same statements can be heard from Secretary Block, Secretary Haig, Secretary Baldrige, Secretary Regan, and the Congress. It is hoped that Japan will now listen.

In the early 1970's, Japan removed its quota on fresh grapefruit. Approximately 10 years prior to that, Japan removed its quota on fresh lemons. Now, 10 years later, Japan should remove the quota on fresh oranges. History, the imbalance of trade, and the international trading rules agreed to by Japan as expressed in the General Agreement on Tariffs and Trade all demand this action. Fairness does as well.

Over the 5-year period, 1975 through 1979, the United States had an average negative balance of trade of $17.3 billion. Generally, this is attributed largely to the recent U.S. need for imports of oil, and that the big world gainers have been the OPEC countries. But, one country, not an oil producer, accounts for 43 percent of our negative trade balance, that country being Japan. A substantial part of a negative balance results from Japanese import restrictions, quotas, and exorbitant duties on agricultural commodities. These quotas were initially imposed years ago for legitimate balance-of-payment reasons pursuant to GATT provisions. Such justification no longer exists. U.S. authorities need to move aggressively to secure their removal.

One of the major impediments to creating a healthy trading relationship with Japan is the existence of excessive duties on, and import quotas for, fresh oranges and certain citrus products. The Japanese duties on fresh oranges are 40 percent from December through May and 20 percent from June through November. That's duty imposed on the landed value.

Japan also maintains an import quota on fresh oranges and citrus juices. Although the quota was recently increased as a result of the multilateral trade negotiations, it is still extremely low and is equivalent to less than 3 percent of the Japanese Mikan production.

Over 75 percent of the Japanese quota on fresh oranges must be imported during the months of May through October. California and Arizona navel oranges are typically harvested from November through April. Accordingly, California navel orange growers are severely limited by the quota in participating in the Japanese market.

Japan, for years, has maintained quotas on the importation of fresh citrus and citrus juices. The present level of these quotas for Japanese fiscal year 1981 is 72,500 metric tons of fresh oranges, 5,500 metric tons of orange juice, and 4,000 metric tons of grapefruit juice. The size of these quotas resulted from minor progress during the recently concluded MTN.

Japan removed the quota on fresh lemons in 1964. The quota on fresh grapefruit was removed by the Japanese Government in 1971. It is time for the Japanese Government to announce its plans for removal of the fresh orange quota. The same is true with respect to the quotas on orange juice and grapefruit juice.

Japan is a fully developed country and must conduct itself as such. This administration has recently announced a very definite free trade policy. Evidence of this was seen by the restraint used in not restricting imports of automobiles. Further evidence is seen by the recent action allowing increased quantities of footwear to come into the United States. Asian countries enjoy exporting to the United States, but do not wish U.S. businessmen and farmers to export to their countries. The time for change has arrived. Trade must be a two-way street.

Japan's orange production consists primarily, approximately 85 percent, of Unshu-Mikans which are more closely related to the tangerine than the orange. The majority of these oranges are sold fresh, although the share processed is constantly increasing.

The United States is the largest market for Japanese canned Mikans, taking over one-half of total exports. Yet Japan maintains a quota against U.S. oranges which severely restricts imports.

Japan is a fully developed nation which must accept its responsibilities in the world. Adjustment in the citrus area may be difficult for Japan, but no more difficult than for Detroit.

There is both demand and a good market in Japan for fresh oranges from the United States. Japan should announce now its plan for full liberalization.

During the period 1975 through 1978, Japan refused import of fresh citrus treated with certain fungicides, orthophenylphenol and thiabendazole. Both of these materials were then approved as safe for use on citrus by the World Health Organization, the Food and Agriculture Organization of the United Nations, the United States and all other developed countries in the world except Japan. Eventually, Japan did approve usage of the two materials but not until the U.S. citrus industry suffered considerable export damage due to Japan's refusal to handle citrus treated with these materials. Japan should adopt international standards for utilization of agricultural materials.

Currently, Japan has placed a quarantine on California produce due to the Mediterranean fruit fly infestations. Japan recently relaxed the quarantine by temporarily exempting lemons. Regardless, Japan's quarantine goes considerably beyond the bounds of the USDA quarantine and has severely restricted California's ability to ship oranges and grapefruit to Japan.

There are over 100,000 Medfly traps in the State. They have a density of at least five per square mile over the State. Where the potential problems exist there are up to 100 per square mile. This is the best Medfly early-warning system ever devised. USDA quarantine is sufficient for the protection of those portions of California agriculture outside the quarantine area as well as the agriculture of all other States in the Union. It is also sufficient for protection of Japanese agriculture. There is a greater probability of a Medfly entering Japan with a Japanese honeymooning couple returning from a visit to Hawaii than with California produce. Japan should adopt the USDA quarantine policy now.

Thank you, Senator. This completes my statement.

Senator HAYAKAWA. Thank you, Mr. Quarles. I certainly agree with you profoundly on the value of the FAS. You'd be glad to know that the President's proposed 1983 budget calls for a 16-percent increase in funding for the FAS in its programs.

Mr. QUARLES. I'm delighted to hear that, Senator.

Senator HAYAKAWA. Mr. Easter, would the reduction in duty significantly increase the sale of almonds in Japan?

Mr. EASTER. Are you talking about the reduction of duty on April 1?

Senator HAYAKAWA. Yes.

Mr. EASTER. I would say that it will marginally increase the sale. It probably will not greatly affect this year's sales because many of them have already taken place. I think it would take a reduction in duty of larger magnitude to dramatically affect sales.

Senator HAYAKAWA. What is the duty now?

Mr. EASTER. The duty now I think is currently 7.1 or somewhere in that neighborhood. It was originally 9 percent and it's being phased down to 4 percent.

Senator HAYAKAWA. Well, compared to some other commodities, the almonds enjoy a freer market.

Mr. EASTER. That's correct.

Senator HAYAKAWA. So you do sell a very large quantity there?

Mr. EASTER. Yes. We think that the elimination of that duty would be a substantial aid, but on the other hand it's not keeping us from the market.

Senator HAYAKAWA. Mr. Anderson, do you have any questions?

Mr. ANDERSON. Maybe a question for Mr. Quarles. We talked some about the dislocation that might or might not be caused in the agricultural sector in Japan if they opened their market up some. What do you think the effect would be if there was the liberalization, say, of oranges and what effect would that have on the citrus growers as far as dislocation of Japan in your opinion?

Mr. QUARLES. Well, the typical citrus ranch in Japan is approximately 2 acres, but the vast majority of these obviously are simply backyard farmers.

I had the privilege of being able to visit with Mr. Iwamochi and Mr. Yamaguchi of the ZENCHU when they were recently in the United States. When they were talking about the 7 million farmers in Japan we got into a discussion of just how much farm income these farmers actually had. As it turned out, according to their figures, that 75 percent of the farmers in Japan make the bulk of their income from nonfarm sources. Certainly that's the case with the 2-acre citrus growers in Japan. So my feeling is that there would be much less dislocation in the Japanese citrus industry due to liberalization than we're currently having right now in Detroit.

Mr. ANDERSON. Thank you. When you spoke with the ZENCHU representatives here, did you make clear the position—they seem to be going back with the attitude that some of our grower organizations at least may not be as serious about liberalization as say the Government officials or as Congress in pushing in that direction. Did you have any conversation in that regard with them?

Mr. QUARLES. Yes, we certainly did, Mr. Anderson. As a matter of fact, I must say I was a little amazed to see those comments in the recent Reuters publication. We in the citrus industry gave them the message that we simply expected total liberalization as soon as absolutely possible and recommended that they get on with it. Of course, in the discussion, why, being representatives of the Japanese farm groups, they were resisting that. But they were under no illusions that the California-Arizona citrus industry fully backed U.S. Government policy in this regard and are applauding U.S. Government policy.

Mr. ANDERSON. Thank you. That's all I have.

Senator HAYAKAWA. I wonder if we could hear from the Japanese national treasure, Allan Grant.

Mr. GRANT. I would like to know first off if you're going to be there on the 24th in Washington before the President's Export Council. Aren't you scheduled to be there?

Mr. OBBINK. No. I'm not aware of it.

Mr. GRANT. I thought you were one of those that were going to be. Julian Heron is going to be there representing the citrus people and they will be discussing the question of foreign trade and disincentives and incentives and so on. I thought you were one of those. But if you're not, I'd like to have your information so that I can bring it up relative to the paperwork necessary that isn't necessary. So I'd like to bring that up at that time because I'm on two subcomittees of the President's Export Council. One of them is Incentives and Disincentives; the other is the Subcommittee on Agriculture. When I arrived there there was no Subcommittee on Agriculture. I asked the chairman why. He said because the Department of Agriculture is doing such a good job, we don't need it. I took issue with that and made a motion and they voted unanimously to have a Subcommittee on Agriculture. So now we can bring some of these things up which will go directly to the President from the President's Export Council.

Now I'd like to talk a little bit to Bill Quarles here about a thing that I mentioned to him earlier, and that is the Mikan orange and the fact that they do come in fresh Mikans, into some of the Northwestern States with no problem because that's not a citrus area and, therefore, they've come in for years and are well accepted by the housewife. I suggested to the Japanese beginning back in 1955, that they could sell a lot more Mikans and they wouldn't have to take citrus trees out of production, they could produce Mikans. They said it was a good idea. I brought that matter up several different times since then. Each time it's a good idea, but that's all. So one time when I brought it up at a meeting in Houston, Tex., I believe it was, the Japanese businessmen, American businessmen, and a State Department official came to see me after the meeting and said:

> Allan, we have offered the Japanese to intercede with the states in the northern tier states to make it possible legally for them to bring those Mikans in. They have refused each time.

Frankly, I think that's one of the bargaining items that could well be used when we're trying to get them to take oranges to say we've offered over and over that you can bring in Mikans in the right area, but not in some areas, and we might be able to do some good that way.

Mr. Quarles, would you comment, please?

Mr. QUARLES. I certainly would, Mr. Grant. It is a good idea. It is an interesting subject. The Japanese produce an excellent Mikan. It's a good product. It's sold in a relatively low price market. It would have, I believe, acceptance here at some level.

The problem is one of a virus that they have in Japan called citrus cancer. It is a disease that wiped out the Florida citrus industry in the early part of this century and for that reason there is a great deal of legitimate concern about it. However, we believe that the concern shown up to now from a technical standpoint is probably overly so. As a matter of fact, about 10 years ago when the six Northwestern States were opened up to Japanese Mikans, the California-Arizona Citrus League testified at a USDA hearing in favor of that. We also indicated during the MTN that we were prepared to recommend that a portion of the United States be opened up or that the United States be opened up, say the citrus-producing States and one buffer State therearound, which would provide all of the major Midwest and Northeastern markets for the Japanese citrus industry. However, the Florida citrus industry were extremely concerned about the idea. But primarily the Japanese Government seemed to be not at all interested. I don't know exactly why.

I can speculate that they were concerned that during that period of time, the multilateral trade negotiations, that if the United States made this kind of concession to Japan, that it would expect further substantial movement on citrus which they simply weren't willing to be forthcoming.

Senator HAYAKAWA. Did I understand correctly that Mikans are sold in Alaska?

Mr. QUARLES. Alaska and the five Northwestern States.

Senator HAYAKAWA. Washington?

Mr. QUARLES. Washington, Idaho, Montana, Oregon, and there's one other but I'm not sure.

Senator HAYAKAWA. Wyoming?

Mr. QUARLES. I'm not sure that Wyoming is one. But it's five on the continent plus Alaska.

Senator HAYAKAWA. I see.

Mr. QUARLES. And even if I should go one step further, in talking about the excellence of the product and the price range that it's in in Japan, it's a product that we could not move into that market. It's an excellent product. It sells for a relatively low price. When we go into Japan with fresh oranges, we're going at a high quality, higher quality, high price market, and the two do not particularly overlap. We've done considerable studies, Senator, market studies that suggest that if Japan were opened up, we could probably only get about 8 to 9 percent market share of the current Mikan market. Now, put that in perspective that Japan has 35 percent of California's automobile market alone and it's not particularly meaningful.

Senator HAYAKAWA. Any further questions, Mr. Anderson, Mr. Grant?

Mr. GRANT. Senator, when I was in Japan in 1974, the Japanese told us—that's when I was there with the Secretary of Agriculture—that in the first 3 months of the year they used all of their quota of American oranges and they didn't have anything left to mix with their local oranges to make it palatable for the rest of the year. Is that still the same situation?

Mr. QUARLES. That's still the same situation, sir, and we can be sure they didn't import any more when they ran out.

Mr. GRANT. They just let the consumer consume that unpalatable local juice and it is not palatable. I know.

I'd like to say to Mr. Easter that I have a vested interest here. My son and I are going to put in 180 acres of almonds. So I hope you do a good job.

Mr. EASTER. I have a membership contract here some place. [Laughter.]

Senator HAYAKAWA. Well, if there is no further discussion, we shall recess for lunch and convene again at 2 o'clock, at which time we shall meet with panels 4 and 5. For those of you who have been aching to give a speech but have not been scheduled today to do so, there will be panel No. 6 at 3:30 open for comments from the floor. So anybody who has a speech coming on should hold it until 3:30.

We're recessed.

[Whereupon the committee recessed.]

AFTERNOON SESSION

Senator HAYAKAWA. Welcome back. We will now proceed with our fourth panel: Galen Geller with the California Tree Fruit Agreement, Glenn Olmstead of Sun-Diamond Growers, and Joel Nelsen, president of the California Citrus Mutual.

Please make yourselves comfortable.

Shall we start with you, Mr. Geller? Are you Mr. Geller?

STATEMENT OF GALEN GELLER, MANAGER, CALIFORNIA TREE FRUIT AGREEMENT, SACRAMENTO, CALIF.

Mr. GELLER. Fine. I am.

I'm the manager of the California Tree Fruit Agreement. That is an organization founded in 1933 when it was licensed by Secretary of Agriculture, Henry Wallace.[1] We have been in business consistently and constantly since 1933 and we presently manage five marketing order programs, four of them under Federal sponsorship and one under State. They relate to the deciduous fruits: peaches, plums, nectarines, and pears, both canned and fresh in the case of pears, fresh only in the case of the others. In fact, so far as plums and nectarines are concerned, they have no other outlet than the fresh.

The principal function of these programs is to establish and carry out quality standards but all of them promote and all of them sponsor research. I've been manager since 1948.

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[1] See p. 80 for the prepared statement of Mr. Geller.

I will hand to Mr. Peltier a copy of our most recent annual report or several copies if you're desirous, the foreword of which describes in more detail what we do. The reason I'm doing this is in 35 years I've never been able to describe to anybody including my wife what the California Fruit Agreement does.

All of the commodities that are under our control are in surplus. The three stone fruits have been very heavily planted in the past 15 or 20 years, even more so in the last 5 to 10. Pears have not been, but pears' principal outlet, canning, is shrinking. Because of their surplus potentials, all of them seek new markets. In the stone fruits, we've been looking at Japan for a good long time. The problem is that Japan has quarantined all so-called hosts of the codling moth for many years. So there's no entry permitted whatsoever.

Two of the fruits would do well in Japan, we think, plums and nectarines. The Japanese production of nectarines, for instance, is negligible. It's a large and colorful fruit. We know the Japanese are very conscious of color in fruit and of size. We have seen large red apples sell in downtown Tokyo for 5½ apiece and other fruits that are spectacular for similarly large prices.

The codling moth first occurred in southern Europe, Southwest Asia, and in portions of the Soviet and was imported into New England in about 1750. With rapid agricultural expansion the moth spread over the country and increased its host range. It occurs on peaches, pears, plums, apricots, walnuts, quince, and a number of other fruits. Preferred hosts are probably pears and apples. We have seen codling moth in plums. We have never seen it in nectarine, but that made no difference to the Japanese.

The Northwest cherry people in 1971 began fumigating cherries looking toward entry and the setting aside of the quarantine. Over a period of 7 years, after numerous missions there, they were permitted entry with a limited number of shipments and only after a legal opening date which coincided with the close of the harvest of the Japanese cherries. For the past 3 years, they have gotten to Japan with several hundred thousand containers which have brought very good prices in the Japanese market. They could obviously sell many more.

All of these are fumigated under the direction of a Japanese inspector, an "a" inspector, I use the term advisedly, because there is only one. There are many places, of course, in the Northwest where they pack cherries. But if he isn't there, you don't fumigate that day and if you don't fumigate, you don't go to Japan. The fumigant is methyl bromide and it must be applied at high temperatures, high enough so that they are deleterious to the fruit.

Taking note of this rather limited progress, the Plum, Peach and Nectarine Committees of the California Tree Fruit Agreement began to sponsor—I guess it's 4 years ago now—a fumigation experiment in regard to their fruits. For 3 years they continued this work and have proved, we think, that they can kill, that we can kill with methyl bromide at proper temperatures and proper dosages, all of the moths, all of the larvae, and all of the eggs. Mortality in the 3-year experiment was a hundred percent. Researchers talk a great deal about prohibit 9 security. Prohibit 9 means that you kill 100,000 insects in fruit with no more survivors than 3.2 insects. Well, we had a hundred percent mortality, but of course we did not fumigate on such large scale.

We forwarded a copy of this study to first the Foreign Agricultural Service who sent a copy to the Counselor and the Embassy at Tokyo, and it went over, we're told, to the Ministry of Agriculture, Forestry, and Fisheries in May of 1980. We have invested $100,000 in this study and plus—well, in the hundred thousand is also some economic research that we did with a specialist from the University of California to determine the potential market in Japan for these fruits. We have inquired many times through the FAS, through people from the industry who have been there, most recently through Bill McMillan who was there several weeks ago on the orange matter, primarily on the orange matter, and we have no response whatsoever. I suppose this you might call the ultimate nontariff trade barrier. If we never get a response, of course, we will never proceed.

We're not anxious to spend another hundred thousand dollars not knowing whether we're going to satisfy the Japanese ever. We know that they'll want more information. They wanted more from the cherry people when the cherry people proved that they could kill codling moth and they said: Well, what about this other insect? So they had to go back and do some more fumigating.

Now, one of the interesting things that the study revealed is that nectarines are probably not a host to codling moth under any circumstance. These fruits are artificially infested with the moth by boring a tunnel into the fruit and inserting a larva and then plugging the hole. You could do that with plums, you could do it with peaches, and you could get infestation. With nectarines you could not do that.

After what they call the first instar cycle, the larva dies. I hope you will not infer something from this about the palatability of nectarines, but it does not appear that nectarines are under any circumstances a host to codling moth.

Now, this would be very important because if the Japanese would recognize that and would lift the quarantine even for nectarines—and nectarines, by the way, I think have the primary chance in Japan—we could do some business in Japan with nectarines.

I thank you very much for having this opportunity to appear before you, and I hope that you will know what to do about it.

I once heard the Senator say that the Japanese were small people and he added they're the right size for human beings. Well, in those little human beings they placed an awful lot of caution, care and self-protectionism.

Senator HAYAKAWA. Thank you, Mr. Geller. That's a fascinating story you tell.

This codling moth is able to attack plums and peaches——

Mr. GELLER. Yes, and certainly pears.

Senator HAYAKAWA [continuing]. But not nectarines.

Mr. GELLER. We do not think that nectarines are a host.

Senator HAYAKAWA. Botanically, they're closely related fruit, are they not?

Mr. GELLER. Well, yes, they are. Do you want to get into that?

Senator HAYAKAWA. No, no, I don't want to get into that.

Mr. GELLER. I want to explain that the nectarine probably antedated the peach, at least there's good evidence that it did. But both are closely related. They both probably came from the almond and a plum-like fruit, a cross between the two.

Senator **Hayakawa**. Thank you very much.

Now, let's go on to the testimony by Mr. Olmstead.

STATEMENT OF GLENN OLMSTEAD, VICE PRESIDENT-INTERNATIONAL, SUN-DIAMOND GROWERS OF CALIFORNIA

Mr. **Olmstead**. Good afternoon, Senator, gentlemen. I'm Glenn Olmstead, VP International for Sun-Diamond Growers in California. We're a grower-owned federated co-op owned and operated by some 5,700 growers who own, operate, and market their own product. We were established in 1980. We're made up of Sunmaid Raisin Growers, California; Sunsweet Growers, Prunes; Diamond Walnut Growers, and Valley Fig Growers. We represent approximately 50 percent of the California walnut industry, 45 percent of the raisin industry, 43 percent of the prune industry, and about 60 percent of the fig industry. I don't mind telling you we live and die by exports. We have to export. It's vital to our marketing program. Japan is one of our major customers. Thirty-five percent of all of the California raisins exported go to Japan. We've been in that market for many years. We've cultivated the Japanese market. We've invested heavily and plan to continue to remain there for a long time.

The prune business to Japan is more than 5,000 tons a year. Exports to Japan have nearly doubled since 1971. It's a very significant business and a growing business, although there are some impediments to the business which we'll talk about a little later on which we could do a much better job if some of the trade barriers were taken away.

In walnuts, we do about 400 tons a year, strictly shelled. They have prohibitions on in-shell walnuts as a result of the codling moth issue. The biggest part of all the products which we export to Japan are all for ingredient commodity use primarily. They go into the baking industry or they're used for juice, concentrate. That's for prunes and walnuts and the baking industry.

The barriers to trade that exist for our industry, the commodities which we represent in Japan presently, the codling moth issue, as Mr. Geller has brought out, is one of the biggest problems that we're facing with selling in-shell walnuts to Japan. They have a home industry that consists of about a thousand metric tons which they produce annually which is solely to satisfy their home market. That product is used primarily for snacking purposes.

Senator **Hayakawa**. Did you say a thousand metric tons?

Mr. **Olmstead**. A thousand metric tons.

Senator **Hayakawa**. That's not much.

Mr. **Olmstead**. No, it isn't. It's very minor.

The rest of the walnuts which they will use in their home market are imported from China——

Senator **Hayakawa**. Shelled?

Mr. **Olmstead**. Right, shelled walnuts. From China, India, and the United States.

We feel that the codling moth issue as far as Japan is concerned, as Mr. Geller has pointed out, is a real barrier in allowing us to expand our trade with Japan. We have put quite a bit of money into research to try and overcome this issue with Japan and meet with lethargy and very little vigor in pursuing the problem and evaluating our research. We presently, as a company and as an industry, are investing thousands of dollars in a study which we will have completed for presentation to Japanese officialdom sometime this fall. I would like to impress upon this committee that in light of this research and also to back up the comments by Mr. Geller, that a very strong effort be made by this committee and the special trade representative in their dealings with Japan to present this issue.

Certainly to point out that we've done a lot of hard work and we've put a lot of energy into this and there should be a lot of emphasis based on taking the fruits of our research and putting it in the right place where people are going to pay attention.

We're also faced with a problem in Japan as regards walnuts of a very high rate of duty. We're currently paying 27½ percent on the CIF value. We think that it's outrageous.

Senator HAYAKAWA. You're paying that on what?

Mr. OLMSTEAD. On the cost insurance and freight value, the landed cost in Japan.

Senator HAYAKAWA. On what product?

Mr. OLMSTEAD. On walnuts.

Senator HAYAKAWA. On walnuts.

Mr. OLMSTEAD. Right.

Senator HAYAKAWA. That's the shelled ones?

Mr. OLMSTEAD. Right. 27½ percent which does no more than outprice the product and make it much more difficult for the Japanese consumer to use our product. We feel that with a reduction in the duty that we could do business somewhere in the area of about 44 million pounds a year which would represent a value of something in excess of $45 million at today's market value which would be very significant.

Going on down the line, the commodities that we're involved in, prunes, carries a duty of 10 percent. We feel that it's unjustified. We compare that to raisins which to some extent they're a complementary product. Raisins have a duty of 3.9 percent, prunes 10 percent. There's no home industry in Japan for prunes. There's a lot of interest in Japan on the part of the consumer for prune product. We feel that if this impediment were eliminated that we could do a much better marketing job and it would be more fair to the Japanese consumer. We also face a problem in Japan in selling concentrates. Prune and raisin concentrate are used by the baking industry. They have quotas. We feel they're unjustified. These quotas are lumped into their quota for juices. These have very specific uses in industry. We feel that they would be noncompetitive and that they would not interfere with the consumption of fruit juices, et cetera, et cetera.

Senator HAYAKAWA. Excuse me. What's the rationale for the big difference between the tariff on raisins and that on prunes?

Mr. OLMSTEAD. Well, Senator, I'd like to have the Japanese explain that.

Senator HAYAKAWA. Don't look at me. [Laughter.]

Mr. OLMSTEAD. That's a point I was trying to make, Senator, the big difference.

Senator **Hayakawa**. There doesn't seem to be any rationale for it?

Mr. **Olmstead**. Right.

Despite all of these roadblocks that I've explained, we're going to continue to market as aggressively and as energetically as we can and do the very best job that we can. We feel, however, that the Japanese consumers are being denied by exaggerated regulations and that they're paying more than they should.

That ends my statement, Senator.

Senator **Hayakawa**. Thank you, Mr. Olmstead.

Mr. Nelsen, president of the California Citrus Mutual.

STATEMENT OF JOEL NELSEN, PRESIDENT, CALIFORNIA CITRUS MUTUAL, VISALIA, CALIF.

Mr. **Nelsen**. Thank you, Senator. I want to thank you and your colleagues for allowing California Citrus Mutual to address this hearing today.

My name, as the Senator mentioned is Joel Nelsen. I'm the president of the California Citrus Mutual. I represent approximately 800 growers farming about 50,000 acres within the State. The majority of our acreage is devoted to the production of navel oranges, a major commodity in our State's agricultural system and one normally exported in great numbers.

My remarks today are not going to be directed at the obvious, but more at what we perceive are illegal, unfair, and somewhat ambiguous blocks thrown at us by the country of Japan in regard to the export of navel oranges.

It is our belief that representatives of the U.S. Department of Agriculture must take a stronger stand against their counterparts in Japan.

We have many advantages in California which normally allow us the ability to expand in world trade as it pertains to agriculture. We have the know-how, we have the ability, we have the soils, climate, and the science to outproduce any other nation in the world if we're allowed to do that.

An expanded export future is well within our grasp, again, if we're allowed to do that. Our growers in my estimation are the best in the world. They can do what no other grower can do on the globe. Our economic system will allow us to do so much, but we can only achieve our maximum potential if we're allowed to export our citrus, primarily, again to Japan.

An obvious trade barrier, addressed to earlier this morning, is the quota system established by Japan. Under this system, *x* amount of fruit is allowed into the country on a seasonal basis with tariffs attached that make the cost to their consumers prohibitive. To put it more graphically, a box of fruit from Lindsay, Calif., reaches the docks of Japan at one price. Yet, by the time the consumer has an opportunity to select from that shipment, the price of that particular orange has increased almost fourfold. Another example, that same shipment to get from one end of the dock to the other end may increase twice just because of their licensing and marketing system on importing fresh citrus products, specifically navel oranges. This quota system is a trade barrier in our estimation and we feel it is essentially illegal under the GATT treaty.

The removal and/or modification, if you will, of this system would allow a freer marketplace and would potentially lessen citrus costs for Japanese consumers and conceivably elevate or increase their consumption of fresh citrus and it may well elevate our exports in this commodity. The end result would be greater inroads into our balance-of-payment deficits.

Senator , I don't have to remind this hearing that agriculture is one area where we presently have a positive balance. This balance will be threatened later in the year with the importation of Australian lemons by the Japanese. We're willing to fight the competitive battle, but we want to fight with the same rules as everybody else.

There is a second barrier obvious to us in the citrus business which I would like to touch upon briefly. Compared to our agricultural system, the productivity of it, the quality and the consistency, the Japanese system could almost be classified as inefficient or perhaps even archaic. Yet via extravagant subsidies, our growers are asked to compete against not only a product but a national treasury as well. The Government of Japan props up their fresh system, and this, coupled with duty, tariffs, and the like, gives the Japanese grower a distinct marketing advantage. Again, we're willing to fight for the consumer's yen in Japan, but we want it to be a fair fight.

One less obvious but just as effective barrier is their use of the Medfly to place in force a set of restrictive and ambiguous rules that limit the sale of California citrus in Japan. In fact, for many growers within our State, the question is fast becoming not how much we sell for what price, but is it all worth it.

Our Medfly finds are well documented, yet how many flies were found in commercial citrus orchards or even relatively close? None. Yet growers in the San Joaquin as well as the Coachella Valley are required to meet certain Japanese standards which add to the cost of the fruit and limit the shelf life as well.

This gets even more ridiculous when one realizes that a fly has never been found in the Coachella Valley, for example, yet growers there are required to fumigate and subjugate themselves to excess handling while their counterparts a scant 3 miles away, in the same desert, but in the State of Arizona, are allowed to ship without these same restrictive conditions. Pretty ambiguous as far as we're concerned.

To me this says one of two things. First, the Japanese are protecting their own interests under the guise of Medfly restrictions or, second, they flat out don't believe our U.S. Department of Agriculture or don't trust it. As far as we're concerned, it's the best department of agriculture in the world.

To the best of my knowledge, every country in the world adheres to our USDA standards, yet Japan appears to be above them.

There may be a psychological reason behind these restrictions. In many cases we think they have a perception of an American businessman as being somewhat less than honorable. Well, perhaps this may be true in some cases and I'm not going to say that we in agriculture may be totally innocent 100 percent of the time.

By the nature of our business, the system of buying and selling over the phone without contracts or signatures, trusting and living by the word of the individual, necessitates for the most honorable conduct. Our USDA in our estimation must begin an education process to eliminate this subliminal barrier and relate to the Japanese that in the fresh produce marketing system of America, the less than honorable man is eventually eliminated.

They need to know that we, too, are fairminded businessmen, to be sure, wishing to make a profit, but can and will deal aboveboard at all times. This psychological aspect is one that is very real in our estimation, perhaps not quite as obvious and most likely the cause of many barriers and a most difficult one that we have to eliminate.

Senator, the Japanese citrus, albeit farm lobby, exerts tremendous force in their government. So much force that restrictions, regulations, laws, and rules exceed the normal bounds of protectionism in our opinion.

Our Government, our Department of Agriculture, must apply strong pressure to counteract this persuasive group.

Worldwide trade is inherent to the economic health of all countries All countries must strive to achieve their share of the marketplace. For U.S. farmers, and California citrus growers in particular, Japan in our opinion must begin to play the game within the global field of play.

Once again, thank you very much for this time, sir.

Senator HAYAKAWA. Thank you, sir.

Let me ask a general question of all of you. There are illogicalities, inconsistencies within the Japanese system of protectionism or their system of tariff rates. Do these emerge because we are specifically discussing Japan? Are there similar inconsistencies or illogicalities in the EEC or in other nations to whom you ship like Taiwan, India, or anywhere else? Do we run into that same body of inconsistencies although perhaps of a different kind?

Mr. NELSEN. Perhaps with the exception of Hong Kong and Singapore to my knowledge. I think those are pretty open markets as far as our citrus and vegetables are concerned. But South Korea, Taiwan, I believe, is pretty self-sufficient, but there's difficulties there as well. It's not exclusive to Japan, no.

Senator HAYAKAWA. They all have their own little areas of illogicality?

Mr. GELLER. Well, Taiwan is, of course, a very high tariff country, but I'm not aware at least so far as our commodities are concerned of these nontariff barriers which we're beginning to suspect is the case on the codling moth in Japan. Hong Kong and Singapore, of course, I don't believe there's any problem with doing business there.

Now, you mentioned the EEC and of course this morning I believe the gentleman here explained what the EEC is doing with subsidies and those are enormous barriers, too. Actually, the subsidies on pears and peaches is greater than the U.S. price in the last 2 years.

Senator HAYAKAWA. Essentially what I'm asking, gentlemen, is whether the difficulties of doing business with Japan are abnormally difficult as compared with doing business in the rest of the world?

Mr. OLMSTEAD. Well, I'd like to say something about the idiosyncrasies of the Japanese. We deal with them on a day-by-day basis and find, for example, that some of their regulations seem to be more involved, particularly as it pertains to certification. Earlier today the testimony was brought out I think by Mr. Obbink about phytosanitary certificates. Every time you turn around and you want to send samples, for example, to Japan and every exporter in this room realizes that you have to present a sample for evaluation in order to sell a product, but you're not going to get it into the country and clear customs unless you go through all this involved paperwork. We find that's more involved with Japan compared to other countries.

Senator HAYAKAWA. Well, gentlemen, Mr. Anderson.

Mr. ANDERSON. Just maybe a comment and I have one question.

As I see it, the difference between Japan and the European Community, we have problems in both areas. The European problem is more of a subsidy issue which prevents our products from competing on a fair basis within the Common Market. That issue is being addressed. For example, there is a 301 case that has been brought by the industry against the processing subsidies on canned peaches and pears as well as the new processing subsidies on raisins. We also face in the Community citrus preferences that are given to the Mediterranean countries ranging anywhere from 60- to 80-percent preferences. They are also being addressed in the form of a 301 complaint from the citrus industry here. So the problems exist as well in dealing with Europe, but in the case of Japan, they seem to be more of a nontariff barrier, take on a nontariff barrier type of a problem where in Europe it tends to be subsidization.

I would ask one question; and that is, both Mr. Geller and Mr. Olmstead talked about research that you've done that you haven't gotten any response on. You've had contact with the Foreign Agricultural Service and with our Embassy there. What does the Foreign Agricultural Service and the Department in our Embassy in Tokyo need to do to follow up on the research that has been done and to push that aspect of it?

Mr. GELLER. I don't know. The answer we get from FAS via the Embassy is that our file is way down. They have a lot of other dockets. They use a horrible example of a New Zealand or an Australian case. I don't know what it involves. It's 2 years old and they just haven't gotten to us. It's been 9 months since it was made. Seems like quite a long time. The report isn't that long. All we need is some indication of whether we should go ahead or say we spent $100,000 and we're through. I don't know what to do. I guess that's why I'm here. We've had people over there. They've inquired. I mentioned that Bill McMillan was over and he inquired and he said with some emphasis. But I don't think that he got any sort of a response.

Now, if they keep the report forever, why forever more we're out.

Mr. ANDERSON. We will be meeting again with the Japanese at the subcabinet level probably in late February or early March where again all of these issues will come up. We could perhaps in the context of the working groups that go on around those meetings raise this issue with the Japanese.

Mr. GELLER. We would certainly appreciate that and appreciate knowing of your progress. Appreciate knowing what we should do to get that response.

Mr. OLMSTEAD. We would certainly second that because we have ongoing research right now which I said earlier which we will complete and have ready for presentation late this summer and early fall and there's many, many thousands of dollars in man-hours gone into this research.

Senator **Hayakawa**. This research on the codling moth and the nectarine, is this reported in a scientific paper of which I could get a reprint?

Mr. **Geller**. I will certainly send you a copy of the report.

Senator **Hayakawa**. I would like two copies, one to keep myself and one to send to some acquaintances in Japan.

Mr. **Geller**. I certainly will see that you get one or two.

Mr. **Grant**. Mr. Olmstead, you mentioned the research and so on and, again, I have a vested interest in this because our daughter and son-in-law have a significant acreage of walnuts. But we aren't alone, the Japanese aren't alone to blame. Some of our own people are to blame. I served on the advisory committee of the GATT negotiations and Bob Strauss worked hard on that. Mr. Dent, Ambassador Dent didn't have much chance because there was going to be a change in administration and we didn't get it all done by any means. But right now we have a President's Advisory Council on Foreign Trade. We don't have revitalized the Agricultural Trade Advisory Committee or the ATAC committees that need to be revitalized and pressure needs to be put on the administration to do that, on Mr. Brock, our trade negotiator. We ought to do that. We ought to put the pressure on. I'm the only agriculturalist on the President's Council on Foreign Trade. Governor Thone of Nebraska owns some farmland. Governor Busbee from Georgia owns some farmland. But I'm the only one that farms and I'd like to hear from some of you people and haven't heard a word yet until I got here today. I might be able to help Senator Hayakawa here if I had some input. The main thing we have troubling us now is there are some people on these advisory committees and councils who are suggesting to the administration that we concentrate on those items of significant export such as corn and soybeans and wheat and feed grains and so on, and we need to concentrate on some of the other things also. Frankly, I told Bob Strauss and Fred Dent the same thing. That these specialty crops add significantly to our export total, but we need some more voices on that score because we can't blame the Japanese entirely. Some of our own people are doing the best they can to scotch what we try to do.

Senator **Hayakawa**. Thank you.

Mr. **Anderson**. I just would add that the technical advisory committees and the agricultural policy committees that Mr. Grant refers to, as he mentioned, has been slow. I think slow is not the word. They were supposed to be formulated into committees in 1980 and ran into problems. We had a change of administration and then the lists were revised. I will say that we hope that there will be a meeting in the spring of these committees and it's long overdue as Mr. Dent says.

Mr. **Grant**. Frankly, it's inexcusable. We want to promote the export of commercial items, naturally, because we're way behind in those, but we're not going to do very well with our lack of productivity in manufacturing and industry but we can do pretty well in agriculture. Therefore, we ought to do whatever we can and we're not doing it.

Senator **Hayakawa**. Mr. Nelsen, what is the volume of your members' crops that have historically gone to Japan and what might it be without the barriers you mentioned?

Mr. **Nelsen**. That's a good question. I'm not involved in the sales or marketing aspect, sir. I can't really truthfully answer that question. I don't have the knowledge. I can guesstimate that we could say that they perhaps yield about 500 boxes per acre and then you have to extrapolate it out to who does the exporting, but I couldn't give you an accurate number on that.

Senator **Hayakawa**. It occurs to me, while we're talking like this, that there's no limit to the number of Japanese automobiles or motorcycles that we can buy. As fast as they produce them, we buy them. But they don't buy our oranges as fast as we produce them.

Mr. **Nelsen**. Unfortunately, you're right.

Senator **Hayakawa**. Or raisins or prunes or any other thing. This is a discrepancy that disturbs us. I mean, if we had a national limit to the number of motorcycles we might buy or the number of cameras we might buy or the number of Toyotas we might buy, then we would say there's a natural reciprocity and see that they might buy and so on. But insofar as we have real freedom of trade, we buy everything they produce in the way of motorcycles and automobiles. We can hardly help expecting them to buy all the walnuts, all the oranges——

Mr. **Nelsen**. I think last year was a good case in point for our navel orange growers. We had a tremendous crop and bad publicity and misinformed media and the public. If we could have exported more to Japan, some of that falsity that went out to the national media scene would have been eliminated. But we just couldn't get into the market and there was a tremendous amount of fruit available to go there if we had the ability to do it. Unfortunately, our hands were tied in that particular year.

Senator **Hayakawa**. Now, one other technical point that I may need some instruction on. How does the codling moth behave? What does it do to a fruit.

Mr. **Geller**. Well, are you addressing me?

Senator **Hayakawa**. Anybody who wants to answer.

Mr. **Geller**. Well, I'm an authority on the codling moth.

Senator **Hayakawa**. That's what we need right now.

Mr. **Geller**. I was a fruit tramp for many years in the days of lead arsenic before DDT when codling moths would take whole crops of pears. I remember working in a packinghouse one time when the percentage was running around 70 percent. I told the boss that day when we returned over 100 percent, it was time for me to go on north and that day we gave back 104 boxes of culls against a delivery of 100 boxes. The codling moth enter the fruit as a larva and the eggs hatch in the fruit and then the eggs in the larval stage feed on the fruit. Of course, they make a hole in it and where the hole is, why, there is further deterioration and the fruit is pretty much inedible or at least you have to eat around the worm and most people are not willing to do that. As I said, codling moth is a serious pest to pears and apples. It is not to the three stone fruits I mentioned and we suspect perhaps not at all to the nectarines.

So it doesn't do anything to the nectarine. But it was not a serious pest in cherries. Yet, they fumigate cherries under very close supervision for methyl bromide for several hours at high temperature and the fruit is isolated from the time it's fumigated until it goes into the ship. It cannot be exposed to the ambient air. It has to have complete isolation into the ship container.

A lot of restrictions that perhaps are useless. But I'm not arguing the cherry case, I'm arguing our case.

The cherry case is cited only because it's similar to the nectarine case.

Senator **Hayakawa**. Are they to be found pretty much all over the United States?

Mr. **Geller**. The codling moth is all over the United States, yes.

Senator **Hayakawa**. How about in Japan?

Mr. **Geller**. No, they do not have the codling moth. That is true. Of course, they have 100,000 applegrowers or more who constantly are growing nearly 1 million tons of apples and they're wise to take steps, reasonable steps to keep the codling moth out.

Senator **Hayakawa**. How about Hawaii?

Mr. **Geller**. I don't know about Hawaii. I assume Hawaii would have codling moths. They have everything esle. The codling moth would have to compete with the Medfly in order to get at the fruit. If the Medfly left anything, the codling moth would take it.

Senator **Hayakawa**. Thank you.

Thank you, gentlemen. Very grateful to all three of you.

Our fifth panel consists of Larry Taber with the California League of Food Processors; Bob Hartzell, California Association of Wine Grape Growers; and Chip Goodman, representing Larry's Food Products, and a change of program gives us Fran Simpson, California Cattle Feeders.

All right. Would you like to start out, Mr. Taber?

STATEMENT OF LARRY TABER, CALIFORNIA LEAGUE OF FOOD PROCESSORS

Mr. **Taber**. Thank you, Senator.

My organization represents 34 fruit and vegetable canners in California, including some frozen food packers. Appreciate very much, sir, your interest in calling this hearing. It's a matter of real importance to our industry and we salute you and the fact that you cared enough to get on the Senate Agriculture Committee and provide a strong voice for California agriculture.

I want to say, and I mean it sincerely, that your staff has been excellent in responding to our industry when we've called on them and we sincerely appreciate it. Also, I'd like to echo the comments of some of the other witnesses: The FAS has done an outstanding job for us and we appreciate it very, very much.

My members have a number of the specialty crops that have been referred to here today and I would like to talk about four categories of peaches, fruit cocktail, pears, tomatoes, and olives. These are the items of interest in our industry in exporting to our good friends in Japan. The California food processing industry and, more particularly, the canning industry, has had a number of very severe problems in the past several years with per capita consumption of these items declining. We have had a number of cannery plants close and we looked at every outlet for our canned fruit and vegetables as extremely important and we can't afford to let any of those markets go for whatever reason. So the Japanese market is one that is relatively small but growing, and the products that I'll discuss we're vitally interested in improving our export position in that country.

I might just say that the California canning industry packs about 300 million cases a year of canned fruit and vegetables which is about 40 percent of the Nation's supply and employs about 60,000 people during the peak of the processing season. The main problem areas that we have with the products that I mentioned are on date coding, quotas, health restrictions, additives, and tariffs.

I would like to speak to peaches first in the context of these problems. Probably with canned peaches the biggest problem we have is with the—well, let me go back to the Tokyo round. Quotas were eliminated and this worked very well. We eliminated the import quotas on white peaches and they eliminated the quota on our yellow cling peaches. Our friends of Japan announced that they have reduced the tariff on canned peaches about two points and moved up the date that was agreed on in the Tokyo round to a couple of years and we certainly appreciate that. Although, we still feel that the present quotas which will be kicking in here pretty soon of around 16 percent, I believe it is, 16.9 percent for peaches and 18.8 for fruit cocktail are really unnecessary because if those quotas were removed or reduced even more, it really wouldn't hurt the domestic Japanese industry but would give our people a chance to export more to that country. The lost money in tariffs, we think, would be made up by the volume of increased exports to Japan.

We also feel that, as I say, that there's a good potential in that country to ship more over there. The industry has spent about $500,000 in promotion and finds good acceptance in the Japanese school lunch program, in their restaurant and bakeries and even some bulk peaches now are being shipped over there and repackaged in the small consumer sizes by some of the supermarket chains. So we're looking at that market enthusiastically and certainly further reduction would be helpful and we don't feel in any way jeopardize the local or domestic Japanese industry.

The date coding is another problem area. It's relatively minor, but it does add to the cost. By date coding I mean putting a date on the top of the can identifying when the product was packed. It's a relatively meaningless bit of information. It's not mandated in this country, although a lot of people do it voluntarily. But it does add an additional cost and we feel relatively unnecessary in the sense of interest to the Japanese consumer.

Going on just in terms of quantifying the amounts of peaches, the low in the last 5 years was about a half million cases which was last year and we had a high of about 864,000 cases of peaches in the 1978–79 marketing season. Fruit cocktail we had a low of 105,000 cases in 1976–77, and a high of 190,000 cases in this last 1980–81 marketing season.

Going on to the next product then would be tomatoes which is a very small item, but the Japanese seem to be adopting more of our Western food-eating ways with pizza becoming more popular and in this case, though we can't compete with the Taiwanese because of the relative advantage they have over freight, but on tomato juice and tomato vegetable juice, the Japanese are retaining quotas on these products and we find this a problem and an obstruction to developing that market. But that is certainly not as important to us as the access for peaches and pears and cocktails.

The other item is canned olives. California, as it does with the peaches, produces 100 percent of this country's canned olives and also does a hundred percent of the fruit cocktail and canned live tree peaches. Olives is another project that presently is a small item in terms of quantity but we think has a good potential over there. The big problem there with that is the Japanese restriction—and this is one that I'll get into a little later—on the color fixative called ferrous gluconate. It's perfectly safe. It's been approved by our country for use, but for some reason that we can't quite ascertain, the Japanese have a hangup on using it. It is an iron compound and it helps to fix the color. They do allow another kind of ferrous sulfate, I believe it is, which does the same thing. But it does add to the cost of producing these olives which creates a problem in a competitive market.

As Mr. Anderson and others have referred to——

Senator **Hayakawa**. Excuse me. Is this a coloring matter or a chemical that fixes the color?

Mr. **Taber**. It fixes the color, the dark color. I believe it adds to the darkness, too, Senator, but I'm not sure.

As I started to say, Mr. Anderson alluded to the 301 case and this is something of extreme concern to us. We're delighted with what appears to be a very aggressive policy by our Government in negotiating with the Common Market because of the tremendous subsidies for these products that I've mentioned put additional pressure to compete in the Japanese market. The 301 case is going to be one watched very carefully because it's really our last chance to compete in the EEC and to relieve the export problems we have with so-called third countries. So we're very hopeful that the Government will sustain the efforts that they seem to be starting here and we, in talking with some of the people in the trade, it was brought out at the hearing in Washington a few weeks ago, our friends can't understand why our Government hasn't been more aggressive and more forceful. They look at us and they shake their heads and they say: "If you were tough, if you came to that bargaining table in Geneva with a strong, aggressive posture and maybe pounded the table and demanded a fair and free trading atmosphere, you might be surprised at what you'll get." We certainly hope that that's the way our people proceed.

The other problem area that I wanted to just mention that cuts across the board with a lot of products is the Japanese attitude on food additives and this ferrous gluconate is an example and the red dye in some cherries is an example. Where they don't accept our scientific standards of data and create a great deal of confusion among people that are actively trading with that country now. Examples were given to me of products that apparently were approved for export, that is, the additives that go into that and when they got to the docks over there, because of reasons that were not clear, they were refused entry into that country. A lot of confusion about what is acceptable, what isn't. As I said, some of the additives which are necessary to certain products that have been approved by the United States and I think we have the toughest standards—I can't conceive of anybody with any tougher regimen in terms of approving these additives for public consumption than our own country.

I notice in the latest Wall Street Journal—I think it was February 9—that the Japanese are setting up an ombudsman to look at some of these problems. That might be a way of getting, other than through negotiation, of resolving some of these minor and yet they do become big problems in opening up a free trade between our two countries. So maybe that is one area that the ombudsman can help in. It's hard and I don't want to take the time to go into the various specific hangups that occurred in the trade operations in that area.

That was kind of highlighting the points that I want to make today, sir, because I think your other witnesses have covered a number of these issues quite well.

Thank you very much.

Senator HAYAKAWA. Thank you, Mr. Taber.

Essentially, what you're summarizing is a number of differences between codes governing additives and coloring matter, things of that kind——

Mr. TABER. That appears to be the case.

Senator HAYAKAWA [continuing]. In food between Japan and the United States——

Mr. TABER. That's right, sir.

Senator HAYAKAWA [continuing]. Insofar as they interfere with your trade?

Mr. TABER. That's right.

Senator HAYAKAWA. Let's proceed to Mr. Hartzell, then.

STATEMENT OF ROBERT P. HARTZELL, EXECUTIVE VICE PRESIDENT, CALIFORNIA ASSOCIATION OF WINEGRAPE GROWERS, SACRAMENTO, CALIF.

Mr. HARTZELL. Mr. Chairman and gentlemen, my name is Robert P. Hartzell. I am executive vice president of the California Association of Winegrape Growers.

I am pleased to have the opportunity to testify at these hearings on trade issues with Japan. International trade in Califorinia wine is becoming an important priority with the membership of our organization and for that matter with the entire California wine industry.

Before addressing the specific issues that are of major importance to us, I would like to familiarize you briefly with the California Association of Winegrape Growers. We organized relatively recently, 1974. Our purpose is to stimulate the economic advancement of California's winegrape growers and serve as a strong, united voice in addressing major concerns. Further, we take positions on key issues affecting growers' interests in the wine industry. At this time we represent growers of approximately 55 percent of the available tonnage of grapes crushed for wine in California.

The California wine industry, comprised of both growers and vintners, has many common goals and challenges relative to the marketing, sales, distribution and promotion of wine. It is only in the priorities of attention that we may differ and these priorities are directly related to the functions of the grower and the vintner in the industry.

Today I would like to direct my comments to three areas: One, to the tariff and nontariff barriers which currently exist that inhabit the export of California wines to Japan; second, the necessity of extending the President's trade negotiating authority as outlined in section 124 of the Trade Act of 1974; finally, to address the impact on winegrape growers of the inequities that exist in foreign market access.

A growing consumer awareness of wine in Japan, combined with an affinity for Western products and lifestyles and high per capita income, makes Japan an alluring market for California wine exporters.

The tariff and liquor taxes are high. The wine tariff can run from about $2.91 to $5.22 per gallon depending on the size of the container. The liquor tax can run from $6.46 to $7.61 per gallon. The result is that a Japanese importer's cost for a $10 per gallon of California wine with a 12-percent alcohol content would be $19.37 to $22.83 per gallon based on the $10 cost plus tariffs and taxes only. That same wine in the United States would cost between $10.55 and $11.10 on the same basis, in other words, adding tariffs and taxes only. No freight is figured in that comparative for obvious reasons. So it's about double what it would cost here.

Another barrier is Japan's certification procedure requiring a special technical analysis that includes the following information: Alcohol content, extract percentage; total sulfur dioxide content and method of measurement; ascorbic acid content and other preservatives. Much the same type of technical information that you've heard about previously.

Japan also requires that the label show the kind of articles, class or grade, alcohol strength, contents of the bottle, whether it is sparkling, the ad valorem tax, if applicable, the name and address of the domestic manufacturer or importer, the address of the manufacturer or import depot, and the customs approval number. Again, we're back to burdensome paper documentation requirements.

Another barrier to imports is Japan's unique distribution system. However, there is little that our Government negotiations can do to ease that burden.

Clearly, a lower tariff would result in more U.S. exports to Japan and thus would help reduce the size of the trade deficit between our two countries. Such exports would help improve U.S. employment and contribute to a reduction in the bilateral economic problems between our two countries.

Finally, it could be argued that lower tariffs and more taxes would not necessarily increase U.S. exports, but may benefit others such as Europe. As you know, however, Europe has the same concerns about Japan's trade structure as does the United States, thus a reduction in the barriers to wine trade would be well received by all of Japan's major trading partners. Moreover, knowing that the Japanese prize quality products, I am certain that American wines will surpass in quality of any in the world on a per yen, per franc, or per dollar basis.

Japan is not the only country in the world which imposes serious tariff and nontariff barriers to the export of California wine. In order to attack and solve these problems, the Trade Agreements Act of 1979 provided in section 854 that the President review foreign tariff and nontariff barriers affecting U.S. exports of alcoholic beverages, and that no later than January 1, 1982, he report to Congress the results of their review.

Further, that if as a result of the review the President determines that tariff and nontariff barrier measures exist which unduly restrict exports of alcoholic beverages, that he shall enter into negotiations under the Trade Act of 1974 to eliminate or reduce these barriers.

Now, getting into a subject here which is different than anyone else has spoken to today in that we are primed and in position now to undergo some negotiations with Japan in the very near future under that provision in the Trade Act of 1979.

Our association has worked with the USTR to help in preparation of the President's report to the Congress as required. This report was presented to the Congress in December of 1981. This report details current tariff and nontariff barriers by country and is the necessary first step to begin negotiations to remove the barriers that are seriously restricting the ability of U.S. wines to flow in U.S. export pipelines.

It is of significance that in reviewing all the potential world markets for increased sales of U.S. wines for the President's report to Congress, the consensus of the industry and Government is that the most promising markets for export to U.S. wines are the EEC countries, Austria, Switzerland, Canada, Mexico, Brazil, Venezuela, Korea, New Zealand, Hong Kong, Singapore, and Japan. Therefore, Japan will be one of the countries where negotiations will occur to endeavor to reduce the high tariff and taxes that were previously set forth to you.

I might say that in a meeting in Washington this week with the USTR and other agencies, it was decided that Japan should be one of the first countries when negotiations would begin. This leads to the second point of my remarks, and that is the need to extend the negotiating authority of the President in order for the required negotiations to occur. Unfortunately, the negotiating authority under section 124 of the Trade Act of 1974, with which the USTR would negotiate the reduction in trade barriers, terminated on January 3, 1982. This is a most unfortunate situation in that we had everything in place to enter into negotiation and then the trade negotiating authority terminated.

Legislation has been introduced by Senators John Danforth and Steven Symms, S. 1902, and by Congressmen Sam Gibbons and Bill Frenzel, H. R. 4761, to extend the President's negotiating authority for an additional 2 years. We urge your support of this legislation and further request that your direct priority be given to obtaining concessions for American wine.

In meetings earlier this week in Washington, I found that the House version was amended last week to exclude import sensitive items from negotiation as negotiating items which seriously weakened the negotiating authority that will be going to the USTR and I would make the plea that when that bill comes to the Senate or is heard in the Senate, that those be either excluded, amended out, or that certainly no additional import sensitive items be added. The way it's been amended, it's discretionary on the President, but that may be good or bad also. So it's got a problem right now. Also, there's other problems along that line that may come as it moves through the Congress.

Finally, I would like to comment on the impact on winegrape growers of the inequities that exist in foreign market access. In 1980, the U.S. wine export figures brought joy to winegrape growers' hearts. U.S. wine exports rose 52 percent, from 5.2 million gallons in 1979, to 7.9 million gallons in 1980. That indeed is fast track progress.

But before we celebrate prematurely, let us look back at the data within the context of overall international wine trade.

First, let us look at wine imports to the United States. In 1980, there were 102,100,000 gallons, up 11.3 percent over 1979 imported into the United States. Therefore, we have the situation where U.S. wine exports are only about 8 percent of the wine imports, but the U.S. exports have been increased percentagewise dramatically in the past 2 years. However, while exports increased by 3.8 million gallons between 1978 and 1980, imports of wine increased by 8 million gallons, some two times the amount of actual wine increases we exported.

Senator HAYAKAWA. Mr. Hartzell, would you be so kind as to quickly summarize your conclusions?

Mr. HARTZELL. I'd like to comment on the deficits and I will.

Senator HAYAKAWA. Yes; please do.

Mr. HARTZELL. In monetary terms, the value of U.S. wine imports was $689.1 million and the total value of U.S. wine exports was only $29.9 million which means we have a trade deficit of some $659 million in the wine trade in the United States.

Now, I will describe the effect of the imbalance between wine exports and wine imports is having on the California winegrape growers.

California growers produce about 90 percent of the grapes that are crushed for wine in the United States. However, California contributes only about 4.5 percent annually to world wine production. Europe, on the other hand, including Russia, produces about 72 percent. My point here is that California is pretty small potatoes in world wine production—yet, we're practically all of the U.S. wine production.

The scene today is that Europe is a virtual "lake of wine" with some 100 million gallons plus flowing across the Atlantic very freely into the dramatically growing U.S. wine market. In fact, while all shipments of California wine increased by a respectable 163 percent between 1970–80, all wine imports to the United States grew 347 percent and Italian wine imports to the United States increased by 1,329 percent.

Why? Because the U.S. wine market is the "shining star" in the world today and we have negotiated away much of our tariff protection so that foreign wines can move into our market very readily.

So, growers today are living with the situation where foreign wine sales in the United States increasing at a more rapid rate than are U.S.-produced wine sales to both domestic and foreign markets, and thus reducing and softening the demand for United States and California produced winegrapes. The fact that imports are capturing so much of the growth in the U.S. wine market has resulted in a static grape price situation to the grower while his costs keep increasing dramatically. This has resulted in many vineyards being sold and generally hard times for many winegrape growers.

The obvious impact of the dramatic imbalance between imports and exports is that wine's contribution to the balance of payments of the United States is and will apparently continue to be seriously in the negative unless we are able to open up export pipelines to move more of our wines into world markets. We must remove the tariff and nontariff restrictions that are keeping our export pipeline from flowing.

If American wine is given the opportunity to compete in foreign markets on a fair and equal basis, we know that the value of exports can be increased many-fold and what is now a staggering trade deficit on wine can become a more balanced picture. We are not protectionists—we are fair traders and consistent with the attitudes of this administration, we believe in the free, open, competitive marketplace. We recognize the damage of setting up barriers to imports and the ensuing reciprocity which may occur. But as fair traders and realists, we do strongly believe in the same access for our wine to foreign markets that we provide foreign wines to our markets.

As winegrape growers, our existence and financial well-being is based on supply and demand. We growers have approximately $6 billion invested in our vineyards here in California. Over the past 10 years, we have experienced a loss in market share of over 10 percent to the inequities between the access we have to foreign markets and the the access foreign producers have to our markets. That has resulted in a loss of some 42,000 acres of grapes that we could have been growing but instead are being grown in a foreign country. If projections to 1990 are correct, that 42,000 acres will increase by another 24,500 acres due to continued loss in market share due to imports flowing into this country more readily than we are allowed to export into promising foreign markets.

Our existence and financial well-being is based on supply and demand. With the increasing flow of foreign wines into this country, the demand for American wine has been reduced and that has meant static prices for California winegrape growers. Very simply, Mr. Chairman, the price we receive for our grapes is directly related to supply and demand and increasing imports that have softened that demand. To improve the demand and to remain nonprotectionists in our approach, the solution is expanded exports of U.S. wine.

I would like to call attention also to the recent 301 action that was filed. That has a direct influence on the wine industry oddly enough. Thompson seedless grapes which are the mother product for raisins can go one of three ways: They can be crushed for wine, they can be for raisins, or they can go for the fresh market. If Greece continues to be allowed to ship subsidized raisins into the European Market and restrict access and thereby make us uncompetitive with Europe, it's going to mean that we're going to have a marked reduction in our export market for raisins and it's going to throw literally hundreds of thousands of tons of Thompson seedless grapes into the wine business which is going to upset our market dramatically.

In conclusion, we believe it is time for our Government to place wine on top of its trade negotiating list. We can no longer tolerate a $659 million trade deficit. For too many years, wine has been a bargaining chip for other commodities. This was true in the Kennedy round as well as the recently concluded Toyko round which while we did not give any more concessions on wine, we certainly did not gain very much. I agree with Larry Taber, we must be more aggressive in future negotiations.

We appreciate the opportunity to appear here as wine grape growers representing the majority of non-winery-owned grapes in California.

Thank you.

Senator HAYAKAWA. Thank you, very, very much.

We have been very attentive for quite a long time now, an hour and a half. I wonder if it isn't time to take another 5-minute break.

[Thereupon a recess was taken.]

Senator HAYAKAWA. The meeting will come to order again.

Mr. Goodman, would you proceed.

STATEMENT OF CHIP GOODMAN, LARRY'S FOOD PRODUCTS, INC., GARDENA, CALIF.

Mr. GOODMAN. I will, Senator.

I'd like to add my appreciation for the opportunity to be heard on a subject that's extremely important at this point in time to the company that I'm speaking on behalf of and the California economy in general.

I've been asked by a couple of your staff members to summarize rather than read testimony in the interest of time and I will highlight for your, and I have presented a five-page written statement for your perusal.[1]

Senator HAYAKAWA. That will be fine.

Mr. GOODMAN. My tale of woe dates back 5 years and it concerns hamburgers.

Senator HAYAKAWA. Good.

Mr. GOODMAN. That's something we can all relate to.

I'm speaking on behalf of Larry's Food Products which is a Gardena-based company that is a specialized producer of fully cooked meat products, prepared, cooked hamburger patties, meatballs, and related sort of items. It was my job at Larry's for a period of 9 years to act as director of marketing and that meant that I was always seeking new markets and trying to find ways to expand use of fully cooked meat products. Well, we grew as a company very rapidly in the seventies because prepared convenience foods were becoming quite popular, particularly by schools, hospitals, and colleges, where a large volume of food had to be put out in a fairly short period of time. Schools were always a very important market for Larry's prepared hamburgers and, in fact, about half of Larry's domestic volume in the United States is concentrated in the school food service market. Precooked hamburger patties are really ideal for schools because they're able to imitate the fast food types of operations without having to cook hamburgers one at a time. So as I say, our business is very much concentrated in schools in the domestic markets, both in the national school lunch program where many of the products meet the nutritional requirements established by our Department of Agriculture and also ala carte to students who——

Senator HAYAKAWA. They're precooked. Are they heated as served?

Mr. GOODMAN. They're frozen and all they have to do is heat them up in large quantities very quickly. They're a real convenience product.

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[1] See p. 81 for the prepared statement of Mr. Goodman.

My tale of woe dates back to 1977, and at that time Larry's was quite a growing company. We were cooking approximately three-quarters of a million hamburger patties a day at our facility in Gardena. I was reading with interest the number of articles in trade journals about the Japanese market, the Westernization of food trends that a number of witnesses have mentioned, the success of the McDonald's operation over there and some studies that showed how per capita consumption of beef and beef products in Japan was on the increase. It was a popular taste.

I also knew from talking to several colleagues of mine in school food service that Japan had a highly organized school lunch program which was in fact modeled after the U.S. program and that it fed about 15 million Japanese schoolchildren every day. So as a marketing guy I'm thinking, all right, here's an idea. Let's send precooked hamburger patties in the Japanese market. Here's a real opportunity. So I decided to study that opportunity a little bit. I contacted USDA, FAS and Larry's in fact participated in a food exposition held in February and March 1978, in Tokyo and Osaka, and found a tremendous interest on the part of the trade in Japan, not only the schools but the vending and other fast service sorts of operations were very, very excited about the product. They got to sample it in the trade show. We got correspondence back from the customary channels, the Economic-Commercial Officer, the Consulate, saying, "You really got a good idea here if you can get around that doggone beef quota system."

Well, it didn't take very long to realize that the quotas and some of these other barriers were going to be a serious problem, that it takes more than just a good idea to sell your product in Japan. So in further pursuit of this, I met with a specialist in the area, Bob Mannion, who was at the time I met with him, and I'm sure he's still with USDA, the market development officer for livestock at FAS. Bob was not very encouraging. He said, "It's going to be real tough to sell anything, whether it's processed or not, in a meat product over to Japan. Why don't you try to make it with less than 30 percent beef?" We got real exotic with the kinds of products we could construct to get around the barriers, but really the message I was getting from Bob and virtually everyone I talked to, was: Sure, you might be able to formulate around it, but the bottom line is they don't want it over there. If you solve one problem, they'll find another. That message was quite clear. So naturally my interest waned.

But in June 1980, two of my friends, Dot Van Egmond-Pannell, who is the food service director of Fairfax County, Va., and Frances McGlone, food service director right here in Oakland, Calif., went on a promotional tour of school food service programs in Japan on behalf of the Cling Peach Advisory Board. They visited school kitchens all over the country. They came back and wrote a series of articles in the School Food Service Journal. One of the things that they did while they were over there which was cited in the articles was to interview Japanese school lunch people, and most importantly, Japanese schoolchildren, as to what their favorite foods were. What they found was that curry rice was the most popular item among Japanese schoolchildren, but No. 2 in their survey was lo and behold, hamburgers. Yet, this was not even on the school lunch menu in Japan. They also told me that the Larry's product that we were talking about would be just ideal because they have very limited equipment in the school kitchens over there and they can't grill it or cook it slowly in ovens, but they did have steaming equipment for the rice and a precooked product would be ideal.

So here I am, I got all excited again. Imagine, here's hamburgers, the second most popular item among Japanese schoolchildren and not even on the menu yet, 15 million a day. I got excited.

So I decided to take up the fight once again and pursue it a bit further. So I contacted Bud Middaugh, who is the director of the Meat Export Federation, which is a trade-sponsored and government-sponsored expor. group headquartered in Denver, and I met with Bud and his associate, Gerald Martens, and they did a little more research for me, and I want to quote from a letter they sent me dated January 20, 1981. It said:

> . . . fully cooked patties would certainly fall under the classification for prepared products 16.02 . . . under the 16.02 classification some rather startling figures which, because of their low quantities, indicated Japan's interest in protecting their own domestic prepared foods.

I asked Mr. Martens what they meant by that. Was it likely that somebody in Japan was doing the same thing that Larry's was doing in the specialized production of cooked hamburger patties? He felt definitely not. But he said, all right, if you want to bump it up one more, let me get in touch with an organization called LIPC. LIPC stands for the Livestock Industry Promotion Council of Japan. OK.

Well, I met with a fellow by the name of Mr. Komori who heads up the LIPC operations in the United States. He has an office in Denver, as well. I had dinner with him in February of 1981, and really it was something like a chess match. I was very excited and excitable and I explained to him my idea and how we were going to put American hamburgers on Japanese school lunch menus for the first time, that it wasn't going to displace a market for his domestic producers because there were no hamburgers on the school lunch menus at this time. He spent most of the evening telling me what a depressed condition most of the domestic producers were in. That really the situation was very serious and he used the words "very difficult" in describing my chances for exporting cooked hamburger patties to Japan. I was later told by my attorney in Washington and your former colleague, Senator Scott, that very difficult in Japanese means impossible in English.

There's one other interesting little footnote to my evening with Mr. Komori. I did request a copy of the tariff regulations. After a couple of weeks they came in the mail in Japanese. So he might be able to translate that for me.

I really didn't understand LIPC's role until a couple of weeks later when I got a copy of their annual report which described their activities which is to protect and stabilize the domestic livestock industry in Japan. So in fact, the growers themselves want to keep the market to themselves and they are charged with keeping everybody else out. So here we are. I've bumped up the ladder with FAS and trade show and on and on. Finally met my adversary in Mr. Komori at LIPC. We want in the market. LIPC doesn't want us in. I have no ill-feeling for anyone that I have contacted or worked with on this 5-year endeavor. Everyone has been courteous and they all have a designated role to play. The fact of the matter is that Larry's is representative of what American industry does best; and that is the blending of agricultural know-how as an abundant beef producer and the high technology of food processing to cook over a million hamburger patties a day.

I can't understand the unfriendly reception and the environment in Japan. I don't think, commonsense tells me that Japan is not likely to become a giant beef producer and specialized further processor given the geography and the topography of the country. Yet, we're treated as a very serious threat to their domestic industry for some reason. I frankly can't see any good reason why products like Larry's cooked hamburgers should be subject to any quota or other unreasonable nontariff obstacles.

In summary, Mr. Chairman, Larry's is willing and able to compete in the Japanese market if we're allowed to do so. We are not asking for a guaranteed percentage of the business, just an opportunity to compete with New Zealand and Australia and other suppliers. We're confident should we succeed that we can provide additional jobs here in California and assist with the balance of payment deficit.

I appreciate the opportunity to appear before the committee and I'm sitting here looking at a Sony tape recorder.

Senator HAYAKAWA. Thank you very, very much. Your testimony raises a lot of questions in my mind. In the case of McDonald's which has had reasonable success in Japan, they get their beef from where?

Mr. GOODMAN. Australia. It's not that Japan has a giant industry, it's just coming from other places. There is no product like Larry's. McDonald's brings in a raw hamburger patty. Larry's produces this high technology, fully cooked product, which there is certainly a tremendous market for, but no current supply in Japan domestic or foreign as far as I can tell.

Senator HAYAKAWA. So that you wouldn't be beating McDonald's out of their business nor any Japanese supplier.

Mr. GOODMAN. We're trying to widen the market, open a new market for hamburgers in Japanese schools and other areas, other sources of domestic market where we can just increase per capita consumption of hamburgers by virtue of the type of product that we produce.

Mr. ANDERSON. The problem is, Senator, that whether it comes from Australia or New Zealand or is grass-fed beef or high-quality beef from the United States, it all goes through the LIPC and the LIPC which is really there to protect the domestic industry determines what the market should have instead of any market——

Mr. GOODMAN. That's right. I was a babe in the woods 5 years ago. It took us 5 years to really understand that basically you have domestic growers deciding what's going to come in. We're not even going to compete with them, but I can't get that message through to them.

Mr. GRANT. Senator, there is a tremendous vacant space between the imported Australian beef, grass-fed beef, and the Kobe beef, so-called, but everybody that's been there knows that if they have a license to sell Kobe beef, then a lot of Australian beef goes into that area. So they've got a license to sell Kobe beef and they've got two or three other kinds of beef in there, they're certainly going to go to Kobe beef. But between the Kobe beef and the Australian grass-fed beef, there's a tremendous market that isn't full at all. And the middle-income people in Japan can't buy beef. They can buy the cheaper hamburger beef that comes in from Australia, but they can't fill the void at all from there up to the Kobe beef. That's all empty.

Mr. GOODMAN. What can we do about it?

Senator HAYAKAWA. I'm not sure that we can do anything.

Mr. ANDERSON. I think it is all part and parcel to liberalizing the market for beef in Japan and it's part of the current Government effort as I mentioned this morning in my testimony that there is a consensus in the Government and the Japanese are being pressed very hard right now for liberalization. We have on beef an agreement as well as on the citrus quotas that runs through April 1984. But we will be later in this year, we hope around October 1, pressing the Japanese for complete liberalization.

Mr. GOODMAN. Just one last comment. You may be missing one of my main points. That is that high technology for the processed beef products should not be quota. That's something only we can do and we can do well and we won't compete with something that's going on there.

Mr. ANDERSON. We would agree. We don't think the quota should be there, period.

Mr. GOODMAN. I think a better argument can be made for quota on unprocessed forms of beef, but certainly no one does a better job than this country in further processing and the quota should certainly have no relevancy there.

Mr. GRANT. Mr. Chairman, the LIPC is in the law and it would take the Japanese Diet to change that. It's going to be a slow process and, as Bob Strauss said, "They'll give it to you at the end of a teaspoon a little bit at a time and that's the only way you'll get it." I think we can do better than that with the present world situation and I hope his administration is going to see that that is a wedge in the door and so I'm hoping that we can do better because of the world situation, not because of Larry's patties, but because of the world situation.

Mr. GOODMAN. Sure.

Senator HAYAKAWA. I would like to ask your impressions today, I'm asking anybody here, including the Japanese newsmen who are here, how earnest Prime Minister Suzuki is about liberalizing trade in Japan because he has very definitely said that he wants to open up trade, has he not?

Mr. GRANT. Senator, I did get a call from Japan a few days ago when Mr. Abe was to be over here who is the new trade man and a telephone conversation and that's all I had, nothing more formal than that. Mr. Abe was flexible, is flexible, and can make his decisions himself when he's over here. That is a little bit hopeful, but that's all it is. I can't say any more than that.

Mr. ANDERSON. I think it is clear that there was a Japanese Cabinet change here about 6 weeks ago or so and when that took place Prime Minister Suzuki did indicate that they would take a look at some of these problems because they were getting a lot of pressure, not only from the United States but from the European Common Market as well and from some of the European countries in there. So they have committed, I think the Government is committed to take a look at it. The two most recent actions were the acceleration of the duty cut in the multilateral trade negotiations which are not all that much significant and the announcement at the end of January of the 99 nontariff barrier items that the Japanese were moving on again move in the right direction but nothing very significant in there for agriculture.

So I think it is incumbent upon all of us, including the administration, to keep the pressure on the Japanese. We have been doing it and, as I mentioned, there will be some Cabinet meetings again either the end of this month or the first part of next and these very issues will be raised.

Senator HAYAKAWA. Thank you.

Mr. Simpson, we've kept you waiting a long time.

Mr. SIMPSON. That's quite all right, sir.

Good afternoon, gentlemen, Senator.

Senator HAYAKAWA. Thank you.

STATEMENT OF FRAN SIMPSON, MANAGER, CALIFORNIA CATTLE FEEDERS ASSOCIATION

Mr. SIMPSON. I might just make one comment that—I know time is passing and I will be brief—one comment that might add to some of what's just been said here regarding the beef industry.

When you look at the world, there are very, very few countries that espouse the free private enterprise system or another way to say it is have an uncontrolled economy, that the Government is as minimal. Sometimes we think the Government is too maximum in ours, but at least it's so much more minimal and certainly in the economic sphere, and I think that is one thing that we're fighting in this whole problem. Of course, the other thing that leads into this discussion today on Japan and the EEC, is the fact that there are very few countries who have the money wherewith to buy products. So when you put those two things together, you come down to Japan and you come down to the EEC.

My name is Fran Simpson. I manage the California Cattle Feeders Association, a State trade association. We represent about 75 or 80 percent of the cattle feeders in the State of California. California is one of the seven largest cattle-feeding States.

Just a little background. The livestock and meat industry has several segments. They have the first segment, a cow-calf ranch operation which is the basic producing unit. Then from there we go into the cattle-feeding industry which is the finishing, the fed beef, and from there the meat-packing industry and meat-jobbing industry, processing industry, if you will, and of course, the chain stores in the other direction or restaurants and finally, of course, the consumer.

My comments today I'll try to make apply kind of to the whole industry, you might say, although I will touch upon California specifically in a few instances.

The livestock industry is the largest segment of the national agriculture industry of this country which, of course, is the largest industry in this country. During the quarter century following World War II, the cattle industry demonstrated a remarkable capacity to increase production of beef in order to keep pace with an everincreasing demand. The economic force behind this great effort was the profit incentive. During this period there were times when the industry overproduced, creating temporary economic setbacks. The factors governing the livestock and beef market and influencing the cattlemen's decisions were basically domestic. Such things as the numbers of cattle and amount of beef, the supplies of feed grains, the volume of competing meats and level of consumer demand.

It is no secret that of late in the last 6 or 8 years the cattle industry has been subjected to prolonged, severe, financial pressures. In fact, California's cattle-feeding and meat-packing industries have experienced over a 50-percent attrition rate during the past 8 years. Nationally the past 8 years have not been good ones for the cattle feeders. Nationally considerable numbers of the meat-packing plants have also either been closed or purchased by other existing companies. During the past 6 to 8 months, many labor contracts for meatpackers have been renegotiated at lower rates. This is something our industry has not seen in 40 years.

Today there are three or four new large beef-packing organizations who have become quite dominant and replace the former Big 4 packers. At the same time, numbers of cattle nationally in feedlots have been reduced due to adverse results. In California, 8 years ago, we maintained about a million head of cattle on feed at all times. Today we maintain about 600,000.

The national cattle industry in 1976, on January 1 had a total population of about 128 million and in succeeding years up to now it has gone to 122, 116, 110, 111, and in 1981 to 115 and 117 million now. This occurred at the same time that the people population of the United States was growing between 1970 and 1980 from 220 to 232 million consumers or a total increase of 5 percent. If the negative economy of the past several years continues to exert pressure on the livestock industry, production will ultimately and inevitably decline further.

If this continues, and this is not a threat, if this continues beef could become a rather scarce commodity, even a luxury item. We don't like to even think of that. The interest of the American beef consumer as well as that of the beef producer are best served if this industry remains viable. All you have to do is look at the fact that we don't have enough oil produced in this Nation, so we have an energy crisis. If the livestock business recedes because of lack of profits and lack of production, why, then we go down that same thing the steel industry has done similarly and so forth.

The highly individualistic people in the cattle industry have never looked to their government for subsidies and they're not looking there now. These people have always believed that success or failure of their endeavors was rightly due to their poor judgment in assessing the market during the conducting of their business. Prices and profits in this industry are determined by supply and demand. It's not a cost plus operation. Of course, the product is perishable whether it's cattle or whether it's meat.

During the past 8 years, economic pressures beyond the normal economics of supply and demand have placed the American cattle industry in an increasingly unfavorable condition. Let's go back to 1973 and the American dollar was devalued. As a result, the price of American grain became attractive to foreign buyers. From then on, international demand for American agricultural commodities was often caused by international politics rather than by international economics. This situation has a profound influence on decisions made by American cattlemen. The developing energy crisis as a result of dependence on unreliable sources of foreign oil has affected beef production costs as all other industries.

To go on, the cattle industry is currently responding to this challenge, the current recession, if you will, by attempting to promote a leaner, less expensive product, and less expanding research to develop new products such as has been mentioned by Mr. Goodman.

I might call your attention to attachment A which is attached to my remarks and I'll just read one little paragraph. This is a publication by the Meat Export Federation which was founded and is being sponsored and helped by FAS. You can study that later. But down in the middle of it it refers to the LIPC and their current announced second beef quota, second-half beef quota. It says:

> The LIPC goes on to explain the decrease in the second half 1981 quota with four factors: A 20 percent increase in domestic beef production, a decrease in domestic beef prices, a decline in beef consumption, and an increase in beef inventory levels.

Well, those sound like things we go through all the time in our industry in this country. They don't seem to be anything. That's just recession. That's a slowup. At any rate, you can study that more at your own leisure.

As a result of our American policy of free trade, foreign automobiles, computers, and appliances are flooding our markets because they can effectively compete and can enter our country under nonrestrictive policies. At the same time the quality of American beef is also unsurpassed in quality and its price is very competitive in world markets.

In the interest of free trade, beef is imported from Australia, New Zealand, and Central American countries regularly. It supplements our domestic production. Further, it is not subjected to as stringent a set of laws related to use of drugs in other countries as that under which American cattlemen operate. We believe in free trade, but we do not have free trade in the world today. Most other countries import only what they want and need and what their business interests are inclined to accept.

The United States remains a major importer of beef from these and other areas only because of a lax trade policy on our part. We believe in free trade, but we don't play under the same rules as has been mentioned by a number of people here today. We must just stop worrying about whether other countries like us or not or whether we just might cause their displeasure. All the American cattle industry asks is that free trade work in both directions. If our product is competitive in quality and price, and it is, then the industry should be permitted to compete in those other markets free of obstructionist regulations that block trade.

I refer you to attachment B of my comments and in the middle of that is a list of 10 items where, "The Government of Japan has reorganized its system for handling its hotel quota for imported beef, the MEF/Tokyo office reports. The new system follows these 10 steps," which I won't take the time to read them, but they are a real gobbledygook of obstructionism.

Development of an export market based upon American beef's competitive position in the international marketplace would be an incentive to demonstrate our capacity to increase production in the American livestock industry. A meaningful, not a token expansion of the export market would provide the motivation for the industry to seriously embark on the methods to produce beef more efficiently and at less cost.

I will just offer this item C that is attached which is published every quarter, I believe, by the USDA and it lists these retail prices which many of you probably are familiar with. When they talk about in Tokyo, $37.72 for sirlon steak and $23.28 for chuck roast, it makes you wonder.

Compare these figures: The United States produces around 205,000 metric tons of beef each week. This is dressed weight, beef weight. We permit about 7 percent of that amount as additional imports into this country. Our annual consumption of beef per person per year currently is about 80 pounds in the United States. It has come down during the past 5 years from about 96 pounds in 1976.

Now, you contrast this with Japan, a nation of 116 million people that imports as much raw material, whether it's grain or soybean or raw hard goods, as it can, and then processes, manufactures and exports and does a very excellent job of that. The $15 billion surplus balance of trade with the United States is easy to understand.

Japan has about 400,000 farmers I'm told including considerable dairymen. When Ambassador Strauss went there in 1979, he managed to obtain a commitment from them to work up to a figure of 10,000 metric tons of high quality beef imports per year. This was given great publicity and in fact was quite an accomplishment at that time. This amount which Japan—and incidentally, Japan consumes about 2 pounds of beef a year—this amount which Japan is not yet importing equals 200 grams. That's about a quarter of a pound per person per year.

To conclude, the livestock-beef industry of this country is one of the very few segments which operates pretty much on a pure free enterprise basis with no subsidies and no marketing orders, but the industry is taking a beating today. This is partly due to the economy, but not entirely due to that.

We are in a world market economy. We don't mind this as long as our Federal Government makes sure we are playing on equal terms with other nations. This equality does not exist, particularly with the EC and Japan.

We can do business with Japan, but only if their protectionist policies are adjusted.

Thank you.

Senator HAYAKAWA. Thank you.

Mr. Grant, do you have any comment to make?

Mr. GRANT. No, I don't think so. Only one comment; and that is when I talked to the Minister of Agriculture in Japan last fall, I reminded him of 1982 and the agreement in the GATT negotiations and he said, "Oh, but Mr. Grant, our farmers don't like the idea of increased imports," and I said, "It doesn't make any difference. You agreed. You signed." But he said, "We'd have to do a lot of talking."

I said, "You'd better get started then because you already signed, you already agreed and therefore we hope to hold you to it."

Well, I hope we can, but I think we need to put some pressure from here. If this administration wants to get it done, they'll need some support from back here at home.

Senator Hayakawa. Mr. Anderson.

Mr. Anderson. Just looking at the problems here, both the fruit and vegetable problems, the wine, the access for the beef to Japan, all I can do is repeat what I said this morning. I've been in Washington about 20 years now working as a commodity analyst in the dairy, livestock and poultry side, the grain side. I've served about two tours in Germany and one in New Zealand. My trade policy experience in the past year or so, I've never seen the Government so together on one issue, the issue of getting greater access to the Japanese market. It was put very clearly by Ambassador McDonald at the first subcabinet meeting that was held in December, that we have reached a watershed and if the Japanese want to continue to do business here in this country, on the basis that they have been doing it in the past and sell products that they have comparative advantage for, they're going to have to open their market. There is a lot of frustration in Washington as I sit around the interagency listening to, whether it's the Commerce people who talk about the problems in the high technology side of the computer chips, whether it's the customs procedures that foil imports going in administrative guidance that reduces trade or quotas themselves, tariff quotas. There's just an awful lot of frustration and I see the Government making a major push, and I can't overemphasize that. I think we will push and the Japanese are beginning to get the message and I look forward to some success.

Senator Hayakawa. Thank you, Mr. Anderson.

One thing that I did promise is that the people in the audience itself have been promised an opportunity to take part in the discussions, and I want to offer them that opportunity right now. Everyone is free to get up and speak if they have a speech coming on.

Is there anybody that would like to make additional comments on what's been going on? I invite everyone to take part in the discussion, including any of the newsmen representing the Japanese press who happen to be here. Are there any comments from anybody, sir? Have we said everything that can be said? Maybe we have said enough.

In that case, I shall make a few closing remarks.

Let me first of all thank this panel and all the other panelists who have taken part today and contributed their experience and their wisdom to our deliberations. We've had some very fine witnesses before us and we appreciate all of you and we appreciate the audience who served today's hearing.

Everything that's happened today has confirmed my suspicions that the import policies of Japan are far reaching in their effects and far more complicated than I have realized, although I've known for a long time that they are complicated. I appreciate the candor and the constructive nature of today's witnesses. Obviously, our work is cut out for us. At the same time as we have criticized Japanese business and business practices abundantly today, I hope it is clear to the Japanese press present here that none of this has been said in the spirit of hostility. All of what we have said has been in the spirit of trying to maintain the good relations that existed for many decades now between our two great nations. We simply don't want the imbalance of trade to go to such a degree that we cease to be as good friends as we have been for such a long time now, certainly since the end of the war and since the end of the very benign occupation of Japan by the Americans after the defeat of Japan. That was one of the great and most beneficient occupations of a conquering army in the history of the world. The Japanese have not forgotten that.

Therefore, there's no reason why good relations should not continue indefinitely unless one side or the other makes some very serious mistakes. I'm calling attention to the inequities of trade opportunities on both sides now. We who are calling attention to what we believe are inequities are trying to preserve that friendship rather than to try to incite quarrels or additional difficulties between us. I implore the people who represent the Japanese press here to make that clear to your readers.

Certainly we believe in freedom of trade in this country. If we did not believe in freedom of trade we should long ago have put far more restrictions upon the importation of Japanese goods, automobiles, motorcycles, cameras, watches, television sets, and many other things. But we buy as many of these things as you produce without any limitations whatsoever. But Japan puts all kinds of limitations upon what we want to sell there.

While Japan in the 1950's and the early 1960's was struggling to restore itself as an industrial nation after our American bombing planes had destroyed Japan, that was perfectly understandable, perfectly excusable. But Japan is no longer a nation trying to reconstruct itself out of the ruins of World War II. Japan is a powerful nation in its own right now, able to take its place in the major leagues of world nations, a power to be reckoned with by every other nation in the world. Therefore, they need not put up special protectionist measures like those to protect its livestock industry. Goodness me, they don't need protection for their livestock industry. We need protection against their automobile industry, but we don't put them up. We ask for sometimes voluntary restrictions which haven't meant very much.

We have measures within our own Congress for much more protectionist measures.

I have a very good friend who's very wise in many ways politically who says: Let us give income tax credits to the purchaser of an American car for the first $5,000 that he pays toward an American car. If he buys a foreign car, no income tax credit. That will restore our American automobile industry. Sounds like a beautiful idea.

But I've said this around to many, many people, at heart we are free traders because no matter how often I say it, people say we shouldn't do that, it's not fair. What do you mean it's not fair? The Japanese are outselling us in the automobile market.

Well, it's not fair anyway. If they're making better automobiles, they're entitled to sell them.

So even what seems like a rational approach to try to put our automobile industry back on its feet is rejected by many of us because basically we are a free trade society, believing profoundly in free trade.

I think that Japan is strong enough, powerful enough, technologically capable enough so that they need not be afraid of free trade in any way anymore. This, too, gentlemen of the Japanese press, is a message I wish you would take to your readers. There's nothing to be afraid of. If we suddenly start invading your country with navel oranges, there's nothing to be afraid of. There's nothing to be afraid of.

If we start selling you more almonds than you can eat, well, you can turn around and sell them to Red China. There's all sorts of things you can do with them because the ingenuity and the sales aggressiveness of the Japanese businessman and the skills of the Japanese engineers and technicians in doing what needs to be done to solve problems are world famous, and justly so. So there's nothing to be afraid of. There's no need for that kind of wall of protectionism.

What does that organization refer to, the LIPC?

Mr. Goodman. LIPC, Livestock Industry Promotion Council.

Senator Hayakawa. Livestock Industry Promotion Council, they don't need any such thing. They can let you and your hamburgers come in and they can survive. In fact, they could probably make money off it. [Laughter.]

Nothing to be afraid of.

If there's any criticism I should make of Japan, it is that it continues to suffer from what I shall call, for want of a better term, a kind of neurosis of believing itself to be a tiny, little, rocky island with a small amount of arable land and no resources or very few resources, but they've got all those resources up here [indicating]. That's their magic. The Japanese alone among all the Eastern Asian nations have combined so much of the wisdom of the East with the technology of the West which is the reason they're ahead of the rest of the East and getting ahead of the rest of the West at the same time. So they have absolutely nothing to fear. It doesn't matter that you don't have oil. It doesn't matter that you don't have millions and millions of acres of farmland. Those things don't matter nearly as much as the fact that you have this fantastic combination of talents historically given to you by the fact of the adventures that have created modern Japan.

I think of the way Tokugawa Shoganate unified Japan. I think of the Meiji restoration and how that gave Japan new spirit that brought it into life with the rest of the world. I think of the generations of young men who went all over Europe and America to bring Japan up to date, to study German military styles, Western medicine, Western technology. They went to America. They went to England. They went to France. They went to Italy. They went all over the place to bring Japan up to date so that they could count themselves equal to the rest of the world. They startled the rest of the world by beating Russia in 1904–05. It's an amazing feat.

Shortly before that they were regarded quite justly as one of these backward Asian nations like Burma or like what was then known as Siam. If you were looking at the world from the point of view of 1855 and said which of these nations is going to be a great power 75 years from now, Siam or Burma or Japan, you'd lay even money on any one of them. Somehow Japan came out ahead. So there's nothing that Japan needs to fear now. Therefore, this kind of protectionism that Japan now manifests is anachronistic, is not worthy of a great, powerful, and highly intelligent, highly innovative nation.

This essentially is the message I want you to take. This hearing is not an anti-Japanese demonstration. It is a protest against certain archaic practices that Japan introduced, let's say, in the late forties and fifties, in the early sixties when Japan was rebuilding itself. It's perfectly understandable in that period, but they no longer are applicable. This meeting is essentially an attempt to reestablish that friendship by our two great nations treating each other as equals. So that even as we buy what you produce in Japan without hesitation, without innumerable roadblocks and quotas and tariffs and nontariff barriers and so on, we would expect to do the same so that we may treat each other equally as adult nations.

I hope we can do that in the future.

Thank you very much for being here.

[Whereupon, at 4:30 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

[The following statistical information was furnished by Henry Voss, California Farm Bureau Federation, see p. 18 for oral reference:]

The biggest California export items to Japan are cotton lint ($456.2 million 28 percent of total value of California exports to Japan), maize ($176.6 million), and fresh beef ($120.9 million).

California also supplies 100 percent of U.S. almonds and walnuts exported to Japan, as well as significant shares of fresh vegetables.

In addition, California supplies 100 percent of the U.S. export of dried apricots and prunes to Japan, as well as 99 percent of the raisins.

PERCENTAGE OF JAPANESE IMPORTS SUPPLIED BY UNITED STATES

[In percent]

	1979	1980
U S share of total Japanese imports	16	15
Food and live animals	26	30
Meat/meat products	23	25
Fish/fish products	14	13
Grain/cereal products	54	62
Wheat	50	40
Corn	NA	NA
Sorghum	41	84
Fruits and vegetables	25	26
Animal feeds	34	36

Source: "Yearbook of United States-Japan Economic Relations in 1980," Japan Economic Institute, 1981, Washington, D.C.

PERCENT OF CALIFORNIA PRODUCTION EXPORTED TO JAPAN

Crop	Total California production (thousand units)	Total California exports to Japan (thousand units)	Total California exports (thousand units)	Percent California exports to Japan	
				Total California exports	California produce
Almonds (tons)	185	10.5	112	9	6
Oranges, all (numbers)	4,470,000	137,956	2,288,400	6	3
Lemons (numbers)	1,345,200	223,614	422,788	53	17
Raisins (tons)	302	16.5	70	24	5
Dried prunes (tons)	163	4	51	8	2
Tomatoes, pr (tons)	5,945	[1] 2.7	123	2	(2)
Apricots (tons)	115	0.2	26	.7	.1
Walnuts (tons)	198	0.3	64	.4	.1
Dates (tons)	23	0.6	8	1.0	(2)
Grapefruit (numbers)	480,000	65,429	139,584	47	13.6
Grapes, fresh (tons)	527	1.5	129	1.1	.2

[1] Includes sauce, paste, puree, and canned. Does not include juice (from table 7).

[2] Negligible.

Source: "Exports of Agricultural Commodities Produced in California, Calendar Year 1980," California Crop and Livestock Reporting Service, Sacramento, August 1981, table 3.

PERCENTAGE OF TOTAL CALIFORINA FRESH PRODUCTS EXPORTED TO JAPAN

Crop	Production (thousand tons)	Exported to Japan (thousand tons)	California fresh export to Japan (percent)[1]
Apricots	115.0	(2)	(3)
Grapes, fresh	527.0	1.5	.2
Grapefruit	240.0	32.4	13.5
Lemons	673.0	116.8	17.4
Oranges	2,235.0	[4]74.8	3.3
Peaches:			
Freestone	235.0		
Clingstone	748.0	[5].2	(6)
Nectarines[7]	192.5		
Pears	396.0	.02	(6)
Plums	160.0	.08	(6)
Avocados[7]	75.0	.8	1.1
Strawberries	256.0	2.0	.8

[1] Total California products fresh and proceessed.
[2] None/negligible.
[3] None.
[4] Includes all oranges, including temple.
[5] Combined peach and nectarine fresh exports.
[6] Negligible.
[7] From California Fruit and Nut Statistics, 1/81, 1979–80 season.

Source: "Exports of Agricultural Commodities Produced in California, Calendar Year 1980,' California Crop and Livestock Reporting Service, Sacramento, August 1981.

EXPORTS TO JAPAN—COMPARISCN OF U.S. FRESH PRODUCE TO CALIFORNIA FRESH PRODUCE

Crop	United States		California	
	Quantity (thousand pounds)	Value (thousands)	Quantity (thousand pounds)	Value (thousands)
Avocados	1,554	$952	1,554	$952
Strawberries	4,059	5,648	3,941	5,516
Grapefruit	284,374	45,805	64,812	12,763
Lemons	224,070	63,351	223,614	63,160
Tangerines	5,978	1,004	5,978	1,004
Temple oranges	11,785	1,726	11,675	1,706
Cranges	138,312	25,070	137,956	24,993
Grapes	2,987	1,637	2,987	1,637
Peaches/nectarines	466	148	466	148
Pears	32	5	32	5
Prunes, plums	166	29	166	29

Source: "Exports of Agricultural Commodities Produced in California, Calendar Year 1980." CCLRS, Sarcamento, August 1981, table 7.

TABLE 9.—JAPAN: AGRICULTURAL IMPORTS AND EXPORTS, CALENDAR YEAR 1979 AND JANUARY–NOVEMBER 1980

[1] CCCN		Calendar year 1979		January to November 1980	
		Total	From United States	Total	From United States
	(A) IMPORTS				
01.	Live animals	97,811	41,100	67,795	25,381
02.	Meat and edible meat offals	1,649,108	418,772	1,335,387	380,101
04.	Dairy products, eggs, and honey	325,514	22,463	291,337	21,981
05.	Products of animal origin	236,354	20,566	206,985	21,270
06.	Live trees and other plants	20,043	3,054	22,454	2,616
07.	Edible vegetables, roots, and tubers	309,969	52,298	304,191	60,514
08.	Fruit and nuts	711,183	316,676	648,980	286,809
09.	Coffee, tea, and spices	731,778	4,492	733,673	3,365
10.	Cereals	3,502,207	2,183,243	3,750,092	2,761,655
11.	Cereal flours, meals, malt, and starches	211,873	17,291	225,407	19,021
12.	Oilseeds, miscellaneous grains, seeds, hops, and forage	2,108,475	1,305,422	1,928,776	1,228,547
13.	Gums, resins, and vegetable extracts	80,676	7,037	70,581	5,533
14.	Vegetable plaiting materials	58,678	660	58,320	853
15.	Animal and vegetable fats and oils	392,565	106,670	341,176	103,961
16.	Preparation of meat excludes fish meat	63,362	12,050	46,390	9,398

TABLE 9.—JAPAN: AGRICULTURAL IMPORTS AND EXPORTS, CALENDAR YEAR 1979 AND JANUARY-NOVEMBER 1980

[1] CCCN		Calendar year 1979		January to November 1980	
		Total	From United States	Total	From United States
17.	Sugar and sugar confectionery	868, 340	12, 119	1, 252, 158	13, 068
18.	Cocoa and cocoa preparations	219, 102	15, 053	137, 723	14, 178
19.	Preparation of cereals, flour or starch	49, 329	245	39, 429	4, 945
20.	Preparation of vegetables, fruit, etc	252, 522	45, 766	216, 923	43, 718
21.	Miscellaneous edible preparations	215, 943	83, 333	185, 464	57, 810
22.	Beverages, spirits, and vinegar excludes ethyl alcohol or neutral spirit and liqueur	77, 476	8, 319	76, 842	8, 584
23.	Residues and waste from food industries; prepared animal fodder	366, 954	161, 734	401, 766	181, 135
24.	Tobacco	413, 135	312, 279	327, 337	233, 044
29. 16	Lactic, tartaric, citric acides, and calcium citrate	15, 636	3, 524	12, 365	3, 407
29. 23	Sodium glutamate	1, 118	---	3, 674	---
29. 24	Lecithins	1, 649	306	1, 604	431
33. 01	Essential oils	55, 712	16, 983	46, 449	15, 225
35.	Albuminoidal substances; glues, casein	122, 262	25, 342	145, 385	32, 892
40. 01	Natural rubber	479, 560	7	596, 444	9
41. 01	Raw hides and skins	587, 166	427, 349	354, 456	255, 838
43. 01	Raw furskins	86, [illegible]	8, 679	39, 301	2, 991
50. 01–03	Cocoons, raw silk, and waste	240, 973	17	153, 586	---
53. 01–05	Wool	810, 492	4, 109	707, 004	2, 705
54. 01–02	Flax and ramie	27, 793	---	28, 335	---
55. 01–04	Raw cotton, linters, waste, and carded	1, 263, 744	507, 307	1, 240, 707	549, 053
57. 01–04	Vegetable textile materials, hemp, manila hemp, and jute	27, 543	---	20, 322	24
	Total	16, 676, 933	6, 144, 265	16, 068, 658	6, 349, 341
03.	Fish, crustaceans, and molluscs	3, 805, 949	631, 485	2, 622, 984	386, 930
16. 04–05	Prepared or preserved fish, crustaceans and molluscs	175, 529	12, 055	162, 955	5, 930
	(B) EXPORTS				
01.	Live animals	4, 580	2, 517	3, 038	556
02.	Meat and edible meat offals	4, 092	1, 769	3, 217	507
04.	Dairy products, eggs, and honey	1, 311	173	1, 419	289
05.	Products of animal origin	11, 707	556	10, 706	599
06.	Live trees and other plants	11, 507	1, 949	10, 153	1, 369
07.	Edible vegetables, roots and tubers	59, 390	5, 550	68, 686	5, 626
08.	Fruit and nuts	20, 654	862	28, 678	1, 130
09.	Coffee, tea, and spices	13, 664	2, 377	3, 246	2, 051
10.	Cereals	153, 154	---	211, 878	2
11.	Products of the milling industry; malt, starches, glutten, etc	11, 478	90	17, 164	112
12.	Oilseeds, miscellaneous grains, seeds, hops, and fodder, etc	46, 469	4, 550	42, 211	4, 116
13.	Gums, resins, and vegetable extracts	10, 092	541	15, 258	1, 132
14.	Vegetable plaiting materials	3, 847	1, 608	2, 786	1, 042
15.	Animal and vegetable fats and oils	140, 608	6, 749	125, 792	6, 091
16.	Preparation of meat exclude fish meat	991	134	918	78
17.	Sugar and sugar confectionery	9, 952	580	21, 131	923
18.	Cocoa and cocoa preparations	4, 328	7	4, 489	[illegible]
19.	Preparations of cereals, flour or starch	19, 765	6, 046	23, 486	6, 665
20.	Preparations of vegetables, fruit, etc	31, 688	19, 922	44, 312	22, 505
21.	Miscellaneous edible preparations	67, 878	16, 147	79, 126	15, 797
22.	Beverages, spirits, and vinegar; excludes ethyl alcohol or neutral spirits	132, 646	5, 834	121, 570	5, 865
23.	Residues and waste from food industries; prepared animal fodder	49, 351	988	40, 034	950
24.	Tobacco	1, 118	56	1, 237	162
29. 16	Lactic acid	3, 815	1, 628	3, 821	1, 572
29. 23	Sodium glutamate	21, 370	5, 135	20, 004	---
29. 24	Lecithins	3, 208	189	2, 969	126
33. 01	Essential oils	2, 329	1, 218	2, 591	1, 495
35.	Albuminoidal substances; glues, casein, etc	51, 858	14, 557	55, 134	15, 189
40. 01	Natural rubber	800	---	73	---
41. 01	Raw hides and skins	17, 199	---	12, 001	---
43. 01	Raw fur skins	3, 099	2, 033	1, 999	562
50. 01–03	Cocoons, raw silk, and waste	7, 706	1, 394	2, 432	141
53. 01–05	Wool	4, 736	---	6, 412	91
54. 01–02	Flax and ramie	72	---	1	---
55. 01–04	Cotton, linters, waste, and carded, etc	13, 200	---	10, 338	---
57. 01–04	Vegetable textile materials, hemp, manila hemp, jute, etc	8	---	3	---
	Total	929, 670	105, 481	998, 313	96, 776
03.	Fish, crustaceans, and molluscs	232, 455	92, 743	268, 913	92, 769
16. 04–05	Prepared or preserved fish, crustaceans, and mollusks	380, 009	60, 712	458, 906	60, 952

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[1] Customs Cooperation Council nomenclature.

EXCHANGE RATE PER U.S. DOLLAR

[Calendar year 1979; average ¥217.46]

1980	Exports	Imports	1980	Exports	Imports
January	¥237.40	¥237.68	August	¥224.66	¥224.85
February	240.46	240.35	September	218.73	210.10
March	247.45	247.44	October	210.24	210.18
April	252.52	252.39	November	211.28	211.28
May	237.75	238.71			
June	221.17	221.44			
July	217.95	217.95	Average January to November	229.06	229.22

Source: Customs Bureau, Ministry of Finance.

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STATEMENT OF LES HUBBARD, SENIOR VICE PRESIDENT, WESTERN GROWERS ASSOCIATION, IRVINE, CALIF.

I am Les Hubbard, a senior vice president of Western Growers Association, headquartered in Irvine, California.

WGA is a general trade association with just over 2,000 members who are growers, packers, shippers and others interested in the fresh vegetable and fruit industries of California and Arizona.

On behalf of our members we have been active in efforts to develop foreign markets in the Pacific basin and in Europe.

As part of this program we have participated in a number of special programs and trade shows in Japan, England and Hong Kong and we plan still another in Singapore in 1983.

Our members were particularly pleased with the results of a trade show and in-store promotion conducted in the Tokyo area in 1973. Japanese consumers were very receptive to our lettuce, celery, onions, melons and strawberries.

However, as our shippers began to develop this market, and as shipments of these products began to approach the volume that is necessary to make the project economical, inspections at the Japanese port of entry began to discover all sorts of problems with our commodities.

One dead aphis in a carton of wrapped lettuce requires that all 800 cartons in a van be opened, all 19,200 heads be unwrapped and the load fumigated.

The combination of fumigation, time out of refrigeration, and just total elapse of time results in deterioration of quality and shortened shelf life. When added to the often tortuous distribution system of Japan, this lettuce is all too frequently unacceptable to the quality conscious Japanese consumer.

It is not as though our shippers were introducing a pest unknown in Japan. Japanese growers are confronted with aphid as a matter of course just like U.S. growers.

Strawberry growers, faced with a similar problem were willing to fumigate prior to shipment. Their problem was to get the Japanese to accept the method, and the results.

Just as this problem appeared to be worked out we were confronted with the Medfly quarantine

In the meantime, celery shippers, who were very enthusiastic about prospects following the 1973 trade show, have ceased trying to ship to Japan, for all practical purposes.

Much of the problem stems from Japan's almost paranoiac fear of alien pests. Japanese law prohibits the importation of a long list of commodities which, or may be, the hosts to a variety of pests.

The law also says that discovery of a pest in a country results in the quarantine of the entire country. While this may make sense in a country as geographically small as Japan, it appears unreasonable to anyone from a country as large as the United States.

Enforcement of the law has led to the exclusion of cabbage because of the Colorado potato beetle, carrots, radishes and turnips because of the burrowing nematode and peppers because of the tobacco blue mold. Entomologists at the University of California tell us that none of these pests exist in California.

In spite of these barriers, there are some commodities that have faired very well in Japan.

Grapefruit ,lemons, oranges, melons and grapes are very popular and the United States exports of these fruits represent 80 to 99 per cent of the total volume imported into Japan. Onions are the major vegetable, with U.S. exports representing about half of those originating outside Japan.

As farmers, we understand the Japanese concern that the country maintain some degree of self-sufficiency in food production.

It has been a losing battle, in spite of all efforts. In 1960 Japanese farmers produce 78 per cent of the country's needs, just under 20 years later that had slipped to 47 per cent and it still is sliding.

At the same time, of course, the protectionism has hurt consumers. Import quotas on 22 different items, tariff quotas on 11 more plus plant and animal quarantine regulations added to a highly inefficient distribution system keep retail prices high and limit import demand.

It has been estimated that this all costs Japanese consumers 25 cents for every dollar of gross agricultural income. This amounts to nearly ten billion dollars a year.

Of course the most recent exhibition of the Japanese attitude is the quarantine of the entire state of California following discovery of the Mediterranean fruit fly in some areas of the state.

We are the first to admit that handling of the situation by the state was not calculated to inspire confidence. But, by the time Japan declared its quarantine, it was pretty well established that proper control procedures at long last were in place.

We think it significant that the Japanese added to the list of host commodities that it put under the quarantine. These items were strawberries, melons and smooth skinned lemons. None of them appear on the USDA list of hosts. Strawberries and honeydew melons were enjoying excellent sale in Japan at the time of the establishment of the quarantine and the lemon season was just about to get under way.

Subsequent negotiations were held between the USDA and Japan, aided by personal meetings between the President of the United States and the Japanese

Minister of Trade, and between U.S. Senator S. I. Hayakawa of California and members of the staff of the Japanese Ambassador. These negotiations succeeded in securing partial relief, but were a long way from being satisfactory to California shippers.

However, optimism is a characteristic absolutely essential for all farmers. It is unconceivable to us that the Japanese market will be closed to us forever. Perhaps we need another Commodore Perry to visit the Emperor with an invitation to establish better trade relations between our countries.

Certainly there has been a much more rapid improvement in the last 40 years than there was in the first 90 years of our relationship. But there still is a long way to go.

Japan is roughly the size of California. It has a population of 120 million people compared to the 22 million in California. It has just over 13 million acres of cultivated land, compared to 36 million in California. It is obvious that no amount of protectionism is going to enable Japanese farmers to feed the nation.

Even with the Westernization of the Japanese diet in recent years, there still is a strong preference for fish, vegetables and fruit.

Modern ocean transportation permits shippers in California to send fresh fruit and vegetables to Yokahama in about the same length of time that the same commodities can be shipped from California to the East coast of the United States.

Japan is a natural customer for our commodities and only artificial barriers keep us from developing the market.

An increase in the use of beef and chicken has created a market for both of those meats, as well as the feed grains necessary to produce them locally.

Wheat has become more important both as a feed grain and for use in bread as Japanese dependence upon rice has lessened.

Japan, in common with most countries, does not want to see one country dominate its food supply. Already the United States accounts for about one third of the food imports into Japan and the future should see this expand.

We have no desire to exploit the Japanese market at the expense of local growers. We are perfectly willing to arrange our shipping seasons to correspond with those periods when Japanese supplies are at their lowest.

But there is no doubt that an enlightened Japan could feed its millions at a lower cost through reasonable trade agreements with the United States.

There is competition for our produce. Hong Kong and Singapore, although a greater distance, have almost no restrictions and offer excellent market opportunities for California growers.

Western Growers Association already has conducted a successful trade show in Hong Kong in 1981, and is planning another such program for Singapore in 1983. We are eager to trade with Japan, but we need markets to provide us an opportunity to produce at economical levels and we will seek them out wherever they are.

STATEMENT OF HARRY KRADE, ASSISTANT DIRECTOR, CALIFORNIA DEPARTMENT OF FOOD AND AGRICUTURE

We are happy to have you here in California to investigate the problems our farmers are having in gaining access to world markets. I recognize that you are currently addressing yourselves to the problem of Japanese markets but I would like to also draw your attention to the European Economic Community and other countries as well. Early last month, for example, our Raisin, Cling Peach and Pear growers and packers asked for and received a 301 hearing to try to get fair treatment from EEC and to fight the clearly illegal and indiscriminatory subsidies which will force U.S. products out of European markets. But I am getting ahead of myself.

California Agriculture is unlike agriculture in most states in the union. We are, of course, the largest producer of agricultural income. In the past year, we realized a gross farm income of $14 billion from over 200 crop commodities and 50 livestock products. This great diversity has both great advantages and great disadvantages. The advantages are that weather is less of a factor in influencing overall production; product prices do not necessarily follow the same patterns thus allowing a greater income averaging and we market, for many crops, a processed product which gives employment to thousands of people in the agricultural and non-agricultural sector of our economy.

In many states the problems associated with exports of farm products is that exports contribute very little to the non-agricultural segment of the economy except indirectly—corn, wheat, soybeans and other grains are exported unprocessed. Here, where we export specialty items such as peaches, grapes, tree nuts and a multitude of specialty crops, these are of necessity processed prior to shipment and our domestic labor force enjoys the employment benefits directly not merely indirectly.

Of the $14 billion of farm products we produced in 1980, $4 billion were sold in foreign markets. This amounts to about 23 percent of total value of marketings finding off-shore destinations. For many products the export market means the difference between profit and loss—or better put, between survival and disaster. Without export market access, for example, our almond industry would be harvesting their orchards with chain saws—fully 60 percent of all almonds produced are sold overseas. The array of export dependent crops and commodities in California is impressive.

The farm value of exports as a percentage of the total value of production for some important commodities is as follows:

	Percent		*Percent*
Cotton lint	87. 5	Lemons	31. 4
Rice	79. 8	Prunes	31. 3
Wheat	78. 1	Onions	29. 1
Almonds	60. 7	Walnuts	30. 8
Ladino clover seed	53. 7	Grapefruit	29. 0
Dry beans	41. 9	Oranges	25. 8
Dates	35. 9		

For 11 leading crops California produces 100 percent of U.S. exports and California leads the nation in 41 crops. All of the exports of almonds, apricots, dates, figs, raisins, olives, cling peaches, prunes, walnuts, garlic and ladino clover seed from the U.S. emanate from California. An additional 12 crops:

	Percent		*Percent*
Broccoli	98. 6	Freestone peaches	71. 7
Processing tomatoes	87. 7	Celery	65. 2
Lemons	80. 5	Rice	62. 7
Plums	79. 9	Oranges	58. 2
Strawberries	76. 0	Dry beans	51. 2
Lettuce	73. 9	Pears	50. 6

Some of the important export crops are heavy users of land—fully 36 percent of California's total crop acreage is planted to export commodities which are marketed abroad. Were it not for exports these lands would either remain idle (which is unlikely) or be devoted to production for domestic markets which, for many products, are already over-supplied. This would lead to disastrous economic consequences.

We do not know precisely how much of our total exports each importing country buys. We do know, however, that Japan and EEC are probably the most important markets we have. In 1980, the Japanese market for all U.S. exports amounted to $6.6 billion of the total $41.3 billion exported. California enjoyed, we believe, at least its proportionate share of the Japanese market and probably did better than the average because of our proximity and the kind of products in the mix of Japan's imports.

Of the array of commodities Japan bought in 1980, we believe California's exports were a significant if not the primary source of supply. The dollar values follow the commodity identification.

	Million		*Million*
Alfalfa hay	$3.5	Grapefruit (fresh) [1]	$45.8
Barley	1.8	Grapefruit juice [1]	3.9
Cotton linters	485.8	Lemons (fresh) [1]	63.3
Cottonseed	7.6	Citrus juice [1] (except orange)	1.9
Cottonseed oil (once refined)	5.5	Oranges (fresh) [1]	25.0
Cottonseed oil (salad oil)	6.6	Orange juice [1]	.5
Dry beans (limas)	7.5	Orange oil	1.8
Dry beans (white)	.4	Peaches (canned or processed) [1]	9.7
Dry beans (red kidney)	.9	Fruit mixes [1]	3.2
Dry beans (NEC)	.4	Olives [1]	.1
Ladino clover seed	.4	Prunes [1]	4.5
Wheat	596.2	Walnuts [1]	.9
Wheat flour	.01	Fresh asparagus [1]	1.8
Almonds [1]	41.2	Fresh lettuce [1]	.1
Apricots [1]	.9	Onions (fresh) [1]	9.0
Dates [1]	.1	Onions (dehydrated) [1]	3.1
Figs [1]	.05	Canned tomato products [1]	1.7
Fresh grapes [1]	1.6	Catsup [1]	.9
Raisins [1]	25.4	Flowers and nursery [1]	1.7
Wine [1]	1.3	Flower seeds [1]	.3
Grape juice [1]	1.6	Strawberries [1]	6.7

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[1] Entirely or mostly California origin.

While the aforesaid is an impressive list of products representing many millions of dollars in income to California farmers, I would like to point out that the potential is far greater than that which has already been developed. Japanese farmers have encouraged—nay, insisted upon—a great level of protection of its industry in the way of both tariff and non-tariff trade barriers. Japan clearly violates the General Agreement on Tariff and Trade (GATT), of which it is a member, by the imposition of quotas and similar impediments to trade. Japanese farmers enjoy incredibly large subsidies on production of beef, rice, soybeans and other commodities. These subsidies are, themselves, impediments to trade.

The recent and ongoing Medfly battle is, in our opinion, less a problem of pest introduction into Japan than it is a method of constricting trade. We do not blame Japan for undertaking all legitimate and proper quarantines to avoid pest invasions but restricting imports of hosts from non-infected areas and classifying non-hosts as hosts goes beyond any possible legitimate concern. I am sure that you will be hearing more about this from other witnesses.

In addition to this statement, I would like to introduce into the record of these proceedings a copy of the bulletin entitled "Exports of Agricultural Commodities Produced in California," calendar year 1980, prepared by the California Crop and Livestock Reporting Service and also our publication entitled "California Agriculture" which enumerates California's principal Crop and Livestock Commodities for 1980.

Thank you, and I would be pleased to answer any questions you may have concerning this issue.

STATEMENT OF STEVEN EASTER, CALIFORNIA ALMOND GROWERS EXCHANGE, SACRAMENTO, CALIF.

The California Almond Growers Exchange, formed in 1910 is an agricultural cooperative located here in Sacramento. The Exchange has over 5,000 member-growers or some 72 percent of growers of almonds in the United States. The Exchange receives, processes, packs and markets almonds for its members. Sales are directed throughout the United States and into nearly every country in the world.

Almonds were California's leading food export item in 1980 valued at $450 million. In addition, California almond exports represent one percent of the total U.S. export business and almonds contributed nearly $400 million toward the national trade deficit.

The Exchange has opened 88 foreign markets to the export of California almonds. Much experience has been gained during this process in dealing with trade impediments and overcoming them. In the process of developing new markets one of the major efforts of the Exchange has been the establishment of the Japanese market. Since our introduction of almonds into Japan in the early 1950s the Exchange has marketed the majority of almonds into that country.

While Japan remains a closed market to many foreign goods including agricultural products, California almonds are one of the exceptions in the Japanese marketplace. In the past decade, almond imports have multiplied in terms of sales values to 11,000 tons in 1980 with an annual growth rate averaging 20 percent.

To continue developing the Japanese almond export market, the Exchange established a market and development office in Tokyo in 1969. We entered into an Export Incentive program with the Foreign Agricultural Service to promote almonds in Japan. Since then, sales of all California almonds have jumped eightfold to more than $40 million. To put our Japanese marketing success in context, one must remember that in 1946, the almond was virtually unknown in Japan. The development of the market since that time is considered a model in U.S. agriculture for expansion of a foreign market. It proves that industry and government can combine to effectively penetrate a market like Japan.

Japan is now the second largest importing country of California almonds behind West Germany. This increase of imported almonds in Japan is a direct result of extensive market development by the California Almond Growers Exchange. The reduction in duties for raw almonds from 9 percent to 4 percent and roasted almonds from 16 percent to 10 percent by 1987 will also have a very beneficial effect on the almond market. These reductions resulted from direct involvement in the Multilateral Trade Negotiations.

Japan recently announced that it will accelerate the original schedule of duty increase. The new plan provides for reduction of the raw almond duty to 5.9 percent and roasted almonds to 12.3 percent on April 1, 1982 instead of by 1984.

Over the years, we have found internal distribution in Japan to be more of a problem than the import tariff itself. Japan's multi-tiered product distribution system is more complex than comparable channels in the United States. As a result, CAGE-Japan contracted with the largest Coca-Cola bottlers for distribution via their direct route sales system. This marketing system is unique in that it eliminated the traditional channels of distribution which frustrate many U.S. businessmen. Today, 14 Coca-Cola bottlers distribute Blue Diamond® snack and cooking almonds to a market of more than one million consumers throughout Japan.

Another unique Exchange advantage for this extremely quality conscious market is the fact we have two groups—one in Sacramento and one in Tokyo—working on product development, sales of new product ideas and advertising tailored to the specific markets.

An increased recognition in Japan of the almond's nutritional value has led to the creation of a very impressive list of new almond products. The school system now uses almonds in its daily lunch programs which features almond curry, almond spaghetti, a new soft almond spread and a fried bread covered with sweetened almonds. Japanese hospitals, defense forces and health centers also feature Blue Diamond® in their food programs. Japan's consumer market is second in size only to the United States.

In addition, CAGE-Japan's product development efforts have adapted products like almond tofu, almond pudding, paste and even almond soap, which is so unique it is being re-exported to the United States.

Despite the difficulty the Japanese way imposes on foreign businessmen, it is possible to use existing channels via joint ventures, like the Coca-Cola bottlers, or individual networks to penetrate this market.

Based on our experience in Japan we know it is vital that there be continued cooperation between government and industry to solve trade problems.

In that regard we thank Senator Hayakawa for his continued support of the almond industry. Particularly his all important effort to have almond duties in Japan eliminated. Additionally his strong efforts on behalf of exports by holding hearings of this nature and sponsoring legislation to make DISC (Domestic International Sales Corporation) benetfis more accessible to farmers are extremely important.

It is vital that the United States take a more aggressive role in trade promotion in Japan and all export markets. Strong support must be given to the Foreign Agricultural Service of the USDA and to the market development programs they administer. FAS is providing an outstanding example of effective government. They work closely with affected parties to reduce trade barriers and expand exports. Their outstanding work must be supported.

In Japan we are experiencing an enormous trade deficit of billions of dollars, yet our government is spending only a few million to support market development. Each year it is a major effort to obtain appropriations to merely maintain current levels of market development funds. At the same time we are spending billions to support and encourage agricultural production. Let us commit to spending where we can get a real and immediate return—export market development.

Given our experience in Japan, we know market development funds can provide a many-fold return to the U.S. agricultural producers. The commitment should be made to spend at least a billion dollars in market promotion. Then we can provide the needed market for agricultural commodities, reduce domestic spending on agriculture and balance our trade with countries like Japan.

STATEMENT OF GALEN GELLER, MANAGER, CALIFORNIA TREE FRUIT AGREEMENT, SACRAMENTO, CALIF.

FUMIGATION OF CALIFORNIA STONE FRUITS FOR CONTROL OF CODLING MOTH LOOKING TOWARD ENTRY INTO JAPAN

The California Tree Fruit Agreement is the industry name of an organization founded in 1933 as "Fruit Order No. 1" when licensed by USDA Secretary of Agriculture Wallace to regulate the handling of "Fresh California Deciduous Tree Fruits Except Apples." Over time, programs within the California Tree Fruit Agreement organization have expanded and they now number five. They are applicable to peaches, plums, nectarines and pears, both fresh and canning. The principal function of these programs is to establish quality standards but all of them also promote and sponsor research. I have been manager since 1948.

All of the fruits controlled by the California Tree Fruit Agreement are in or approach surplus conditions. The three stone fruits—plums, peaches and nectarines—have been heavily planted in recent years. While pear plantings have been modest, its principal market, processing, has been shrinking. All four of the fruits seek new markets and two of them—plums and nectarines—could well find a market in Japan if they were permitted to enter (prospects for peaches and pears there are less promising since Japan produces substantial quantities of both). All four of the fruits as well as other deciduous crops are quarantined by Japan as potential carriers of codling moth.

The codling moth first occurred in southern Europe, southwest Asia and the mountains of Soviet Central Asia and was imported into the New England states in about 1750. With rapid agricultural development of the United States the moth spread across the continent from southern Canada to the Mexican border during the 1800's. With extensive cultivation the insect increased its host range and it is capable of developing on apples, apricots, cherries, peaches, pears, plums, quince and walnuts. Preferred hosts are apples and pears. The moth will infest plums only reluctantly and no one has ever seen codling moth larvae in nectarines.

Beginning in 1971, the Northwest cherry people began fumigation work looking toward satisfying the Japanese quarantine. This work continued for seven years and numerous missions were sent to Japan seeking approval to export fumigated cherries to that country. During each of the past three years a limited quantity of fumigated cherries has been permitted entry after the Japanese crop was sold. The fumigant is methyl bromide and it must be applied at high temperatures which are deleterious to the fruit. The fumigation is supervised by a single Japanese inspector whose presence is required whenever fumigation is undertaken.

Taking note of this limited progress, the Plum, Peach and Nectarine Committees of the California Tree Fruit Agreement have sponsored a substantial research project to determine the efficacy of treating peaches, plums and nectarines with methyl bromide to kill codling moth larva and eggs. The three-year project has proved that a complete mortality of insects, larvae and eggs can be obtained with methyl bromide fumigation. Moreover the fruits did not sustain vital phytotoxic damage and the levels of bromide residues were acceptable.

A report of the three-year study was forwarded by the Foreign Agriculture Service to Japan in the spring of 1981 and was placed in the hands of the Minister of Agriculture, Forestry and Fisheries in May of that year. The report is entitled "Methyl Bromide Fumigation of Exported Peaches, Plums and Nectarines: Efficiency against Codling Moth, Phytotoxic Effects on Fruit." Despite numerous inquiries, most recently by Bill McMillan, Assistant Secretary USDA, no response has been forthcoming from the Japanese. The California industry has invested about $100,000 in the research work and a study of the Japanese market for these fruits conducted by a University of California specialist. We are prepared to undertake any further studies that the Japanese require but we are at a loss to know what to do in view of the prolonged silence on the part of the Japanese.

One of the important aspects of this study was a showing that nectarines are not a host to the codling moth. In order to secure infested fruit, moths were reared on thinning apples and the fruits to be fumigated were artificially infested. This was completed by boring tunnels into cores of the fruit and inserting a larva into each tunnel. A piece of paper towel was inserted into the tunnel ahead of the larva to absorb some of the excess liquid and to prevent the larva from drowning. To keep the larva from escaping, the tunnel opening was closed with a section of the plug previously removed from the fruit. This worked for plums and peaches to some extent although not in sufficient numbers for large scale fumigation tests. Nectarines could not be infested under any conditions. In both field and laboratory studies only an occasional larva penetrated nectarines but none survived after the first instar following penetration.

STATEMENT OF CHIP GOODMAN, LARRY'S FOOD PRODUCTS, INC., GARDENA, CALIF.

Thank you for the opportunity to present testimony this afternoon. You are to be complimented on your interest in this important and timely subject which has great impact on the California economy. My name is Chip Goodman. I am presenting testimony on behalf of Larry's Food Products, Inc.

Larry's is a food processing company located in Gardena, Calif. The company is a specialized, cost-efficient producer of fully cooked meat products primarily for the food service industry. Larry's 125,000 square foot plant employs approximately 250 people and can produce in excess of one million units per day. The largest volume products are a line of fully cooked and frozen prepared hamburger patties. They also manufacture related items such as fully cooked meatballs, breaded beef patties, etc.

For nine years, I held the position of Director of Marketing at Larry's. It was my job to develop new markets for Larry's products. There have been many opportunities as prepared convenience foods have gained increasing acceptance among high-volume food service operators in schools, vending, hospitals, and even some fast food chains.

Let's focus for a moment on the school food service market. Fully cooked hamburger patties are ideal for schools because they must prepare and serve a large volume of meals in a short period of time. Approximately 50% of Larry's domestic volume is concentrated in schools. In fact, several of the products are designed to meet the nutritional requirements for the National School Lunch Program established by the U.S. Department of Agriculture. Other products are sold "ala carte" to school children not receiving the federally subsidized meals.

By 1977, Larry's had become the largest manufacturer of fully cooked hamburger patties under one roof * * * producing over ¾ of a million units daily. As the business continued to expand, I continued to pursue new markets. I had read a number of trade articles about the "westernization" of food habits in Japan and the success of the McDonald's hamburger operations. I had also seen some studies citing the increasing appetite for beef products among the Japanese populace.

I knew that Japan has a highly organized national school lunch program modeled after the American system. I was told by school food service directors who had hosted Japanese visitors that the program serves approximately 15 million children each school day * * * I had an idea. Let's make Larry's the first company to bring genuine American hamburgers to Japanese school children.

I undertook a project to study the market more closely. Toward that end: I contacted Mr. Theodore Horoschak at the U.S. Department of Agriculture, Foreign Agriculture Service. Mr. Horoschak encouraged me to determine interest in the Larry's products by participating in an American-sponsored Food Exhibit held in Tokyo and Osaka in February and March of 1978.

Larry's did participate in the show and found a tremendous interest in the products. Mr. Alvin H. Chin, the Economic-Commercial Officer attached to the U.S. consulate in Fukuoka, Japan, commented in a letter dated April 28, 1978, "There's quite a bit of potential here in Japan for these hamburger patties, provided you can get around the beef quota system which will produce a limit on your sales potential * * *."

It didn't take long to realize that Japanese restrictions of American exports of processed products containing beef was going to be a problem. In an effort to better understand the difficulty, I met with Mr. Bob Mannion, the Market Development Director for Livestock at USDA, FAS.

Mr. Mannion was not very encouraging. He did suggest that we try to formulate the product around the regulations by using less than 30 percent beef or combining beef with a variety of other meat products and by-products. Even if we were able to do that, we would still run afoul of other non-tariff barriers which require unrealistic cooking methods for meats not appropriate for a modern processing plant.

The message I was getting from USDA FAS and others in the industry was simple * * * "you are wasting your time. They don't want your product entering the Japanese market and they will find a way to keep it out."

Time passed and naturally my interest subsided until the summer of 1980. In June, 1980, two of my friends (and customers) participated in a promotional tour of school food service programs in Japan on behalf of the Cling Peach Advisory Board. They visited school kitchens all over the country and talked with hundreds of Japanese school children. These two directors, Dot Van Egmond-Pannell from Fairfax County, Virginia and Frances McGlone, from Oakland, California, returned to write a series of articles for "School Food Service Journal" about their experiences. Their article published in the February, 1981 "School Food Service Journal" got me excited all over again. They said, "As Japanese diets become more Americanized, especially among school age children, the market has greater potential for popular American foods. For example, curry rice was always the favorite at all schools visited, but we noted with interest that the second runner up was hamburgers and french fries * * *." Imagine the potential * * * hamburgers are the kids second most favorite foods * * * and they aren't even on the school menus * * * (yet). Music to my ears.

In several discussions with Dot and Frances, they told me that the Larry's hamburger patties would be ideal for school kitchens in Japan. Apparently most school kitchens do not have adequate grill or oven cooking facilities. The Larry's product could be re-constituted in the steamers which are found in every school kitchen.

Dot and Frances' observations helped get me motivated to attack the export bureaucracy all over again. This time, I thought I would try a new strategy by approaching the U.S. Meat Export Federation, headquartered in Denver, Colorado.

I contacted Mr. Bud Middaugh and met with him in January of 1981. At my request, Bud and his associate, Mr. Gerald Martens, researched the situation and responded to me in a letter dated January 20, 1981. It stated in part: "fully cooked patties would certainly fall under the classification for prepared products 16.02 * * * under the 16.02 classification (I was later given) some rather startling figures which, because of their low quantities, indicated Japan's interest in protecting their own domestic prepared foods industry.

I inquired whether the Japanese were likely to have a domestic plant producing prepared hamburgers on a scale that Larry's was. Mr. Martens felt this was very unlikely. Frustrated once again, I asked who I should further press my case with.

I was told that the organization called LIPC, the Livestock Industry Promotion Council of Japan, was the quasi-governmental agency which controls the beef quota regulations in Japan.

I contacted Mr. Komori who heads up U.S. operations for LIPC. We met for dinner in Denver in February of 1981. The meeting was something of a chess match. I spent much of the evening explaining how we could put hamburgers on the school lunch menu in Japan for the first time * * * and to do so would increase net consumption of beef (not displace an existing market for Japanese grown beef.)

Mr. Komori spent most of the evening explaining to me how per capita beef consumption was dropping and how much financial difficulty domestic producers were in. At one point in the conversation, Mr. Komori said that he thought

Larry's entry into the Japanese market would be very difficult. My attorney in Washington, former Senator Hugh Scott, translated for me. He said that "very difficult" in Japanese means "impossible" in English. One interesting footnote: I ended the evening by requesting a copy of the current quota and tariff regulations * * * which Mr. Komori forwarded to me * * * in Japanese.

I did not fully understand Komori's role in helping shape import policy until a few days later when I read a report which describes LIPC's activities. The introductory message from the President states: "The Corporation is a semi-governmental institution established by law in December, 1961, for the purpose of ensuring price stabilization of livestock products and promotion of the livestock industry in Japan * * *."

So here we are at an impass. I've finally come face to face with my adversary. Larry's wants to get into the market in Japan. For the most part, the representatives of the domestic industry will do their best to keep Larry's out.

I have no animosity for LIPS, USDA FAS, or the U.S. Meat Export Federation. All of the people have been courteous, and they all have their role to play * * * and I do hope that I haven't offended anyone.

The plain truth of the matter is that Larry's represents American industry at its best: the blending of American agricultural know-how as an abundant beef producer, combined with high technology food processing in cooking over one million hamburger patties per day.

Why, then, are we caught in an unfriendly environment? It doesn't make sense to me. Products like the Larry's hamburgers would not displace domestically produced Japanese product. Common sense tells us that Japan is not likely to become an international giant in beef production and further processing technology.

Larry's should be free to conduct business and to develop the Japanese market for hamburgers. There is no good reason why further processed products like Larry's should be subject to the beef quota or other unreasonable non-tariff obstacles.

In summary, Mr. Chairman, Larry's Food Products is ready, willing and able to compete in the Japanese market if we are allowed to do so. We are not asking for a guaranteed percentage of the market, but rather the opportunity to compete with Australia and New Zealand in a market that we have been precluded from entering through tariff and non-tariff barriers. We are confident that we could succeed in this market providing additional employment opportunities here in California and assisting the U.S. with its balance of payments deficit.

I very much appreciate the opportunity to appear before the committee.

STATEMENT OF HENRY B. CHAVEZ, PRESIDENT, CALIFORNIA PISTACHIO ASSOCIATION

My name is Henry B. Chavez and I serve as President of the California Pistachio Association (CPA). The Association is comprised of approximately 215 grower members from California, Arizona, New Mexico and Texas and approximately 40 associate members. The associate members market in excess of 75 percent of the U.S. pistachio nut production.

The commercial development of our domestic pistachio industry has all taken place in the past 10 to 12 years. It has been responsible for thousands of new jobs and for over $300 million invested in land development and processing plants.

Our first commercial harvest of 4.5 million pounds was in 1977. By 1980, our production has reached 27.2 million pounds—equal to the yearly consumption average of pistachio nuts by U.S. consumers. Projections for production are for 50 million pounds by 1985 and for 80 million pounds by 1990. Not only has the quantity of nuts produced increased dramatically, we are the world leader in quality of nuts produced. In only 4 years, the American pistachio grower put the technology and know-how together to become second in production only to Iran. Iran has 2,000 years of pistachio production history.

The marketing plan for U.S. pistachios calls for a strong industry marketing program to increase domestic sales and consumption and to increase sales and consumption in export markets throughout the world. These increased domestic and foreign market sales will be needed to assure American growers and processors a profit on their investment.

In reviewing the potential export markets of major pistachio-consuming countries, those which are self-sufficient in production must be eliminated: Iran, Greece, Turkey, and others in the Middle East. What remains, after analysis as to marketing potential, is Japan and the countries of the Common Market.

The Common Market countries have a very good potential for market expansion, but Iran has a geographic advantage in this market. In addition, Iran now leads in world production and has a production-potential estimated to be 200 million pounds. This clearly shows we have much to accomplish if we are to penetrate the European markets.

Our task in market expansion is made more difficult by the Common Market countries' and Japan's tariffs. These tariffs directly penalize American product and grant a favorable position to Iranian pistachios. The Common Market countries apply a 1 percent duty on Iran's pistachios and a 2 percent duty on ours. The tariffs which are most damaging to the U.S. industry's export potential are Japan's. Their tariffs were changed in 1981 to provide a 2 percent tariff on Iranian pistachios and a 20 percent tariff on those from the United States. At a base price of $4.00 per pound, U.S. pistachios would cost 72 cents per pound more than Iranian pistachios. This poses a very serious threat to our export objectives.

Japan's rationale for this devastating difference is that Iran's tariff has been granted under GSP preferential treatment for undeveloped nations. This is ironic when one considers that Iran has 2,000 years of production and marketing experience in pistachios and is considered undeveloped. The U.S., with only 4 years of production and limited marketing experience, is considered developed. The most frustrating aspect of this situation is that the California industry has no mechanism for a direct appeal to the Japanese government.

Japan has further complicated, and we believe, restricted trade of not only pistachios but all nuts by establishing a non-tariff barrier in the guise of a health law.

Each shipment of nuts must now be tested for aflatoxin and must be found free—with zero tolerance or the shipment is rejected. This regulation is a direct result of Iranian nuts received into Japan which were found to be contaminated with aflatoxin at 800+ parts per billion. Rather than eliminating the source of the problem (Iranian nuts), all nuts are now subject to inspection.

U.S. producers certainly would not want to ship contaminated product to any country; however, a zero tolerance is totally unrealistic. The U.S. Food and Drug permits 20 parts per billion. Again, we have no appeal recourse to this type of trade barrier.

If the U.S. were to check minor defects on imported Toyota cars and reject all those that did not have working windshield wipers or defective horns, etc. it would represent the same sort of unfair barrier to free trade.

We in the California pistachio industry believe in free trade. We do not believe the answer is additional duties on U.S. imports. However, we also believe in the concept of fair trade. It is very clear that Japan has not granted the U.S. pistachio industry fair trade.

We appeal, Senator Hayakawa, to you and the members of the Senate Agriculture Committee to explore these injustices that are practiced by Japan and to do that which is necessary to bring about free—fair trade.